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PROFITING FROM INNOVATION IN INTERNATIONAL MARKETS
– CASE OF FINNISH FASHION INDUSTRY

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Abstract

The research focuses on examining how the industry-level challenges and features of Finnish fashion influence the internationalisation process of Finnish fashion firms, and do the challenges related to profiting from innovation contribute to this relationship. The author argues that the industry-level challenges have an effect on the Finnish fashion firms’ possibilities to profit from innovation. The research aims to form an understanding of the state of internationalisation of Finnish fashion firms, identify and describe the challenges, and find means to overcome them. The study has been conducted as a qualitative case study, in which the author has combined data from previous research literature with new empirical data collected from interviews of four case companies. Three of the case companies are small Finnish fashion firms at different stages of internationalisation. In addition a Swedish fashion firm which has succeeded in the international markets was interviewed for a comparison.

The theoretical framework was formed by combining internationalisation discussion with profiting from innovation research, and then applied in the context of Finnish fashion industry. The findings of this study indicate that the majority of Finnish fashion firms’ challenges concerning profiting from innovation in international markets originate from the industry-level challenges and features. The industry-level challenges influence the firms’ complementary assets and capabilities that are critical in terms of capturing the value from an innovation. This in turn has in turn contributes to the relationship and escalates the effect the industry-level challenges have on the internationalisation of Finnish fashion firms by strengthening their hindering impact. The empirical examination also revealed that Finnish fashion entrepreneurs do not consider themselves as innovators or their products as innovations. This can have a significant impact on the fashion firms’ abilities to profit from their innovations.

Previous research on the industry-level challenges and features of Finnish fashion is rather limited, and this study contributes to the discussion concerning the impact they have on individual firms. This study also examines the phenomenon from a new perspective by applying Teece’s (1986) seminal profiting from innovation model to the fashion industry. The results of this study can be used to enhance the internationalisation possibilities of Finnish fashion firms.
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1 INTRODUCTION

Finnish fashion has gained new international recognition over the past few years. As Salimäki and Gabrielsson argued already in 2005, Finnish firms have the potential to gain international success and financial profitability while achieving even a leading position in the Western European market. There are several higher level institutes in Finland offering high quality education in fashion and the industry has long traditions. Many Finnish designers work for some of the biggest fashion houses in the world and in recent years they have been regularly represented in the world’s most prestigious fashion competition, Hyères International Fashion Festival. In endeavour to find new ways to promote national competitiveness in the global economy Finnish government has also named design as one of the key areas in the design policy and thus agreed to promote the industry (Design Finland Programme, 2014). Thus it would seem that Finnish fashion has the prerequisites to produce international success stories. For some reason this has not happened.

Despite the seemingly good basis Finnish fashion industry forms for companies it has its challenges. Finland like other Nordic countries is a SMOPEC, a small and open economy (Luostarinen & Gabrielsson, 2006), i.e. the domestic market for Finnish fashion firms is small and volumes are low. The industry itself is very international and as the small home market is filled with large international brands it is very difficult for small Finnish fashion firms to succeed commercially. In addition to challenging market, lack of international success could also be due to certain institutional factors such as low level of networking, insufficient knowledge base and education, and ineffective institutional setup (Lille, 2010; Power et al, 2006;), changing retail structure (Jensen, 2015) as well as challenging intellectual property rights (Derclaye, 2010; Falay et al, 2007). The product life cycle in fashion industry in general is short (Holton, 2014; Rautiala & Sprigman, 2006) and the commerciality and branding of Finnish fashion has been questioned, too (Lille, 2010). General attitudes and insufficient government support (Lille, 2010) as well as the global economic situation impacting consumer behaviours (Wu et al, 2013; Joule, 2011; Aversa & Condon, 2010) create challenges for Finnish fashion firms to overcome on their path to international success.
There are several different internationalisation research streams with which one could try to explain the challenges. Internationalisation as a phenomenon has been of interest in the research field for decades and research on the topic is abundant. There is a myriad of approaches to internationalization (Kyvik et al, 2013) such as traditional theories that see internationalisation to develop incrementally as firms gain more knowledge and resources while moving from domestic market to international markets (Johanson & Vahlne, 1977). Liesch and Knight (1999) describe the discovery of international markets to happen through innovation. Internationalization can also be seen as a strategy for searching for new resources and opportunities outside the domestic market (Peng, 2001; Knight, 2000). According to the network approach firms can obtain new resources and knowledge through international networks which allow them to extend and penetrate new markets (Musteen et al, 2014; Chetty & Blankenburg Holm, 2000).

One of the streams within internationalisation research concerns international entrepreneurship which has its roots in new venture discussion, as argued by Oviatt and McDougall (2005). New ventures can be defined as business organizations aiming to internationalise early in their existence: they use resources and sell their products in multiple countries in order to create great competitive advantage (Oviatt & McDougall, 1994). According to the same writers there are numerous definitions to international entrepreneurship which they in their study from 2000 describe as behaviour that is proactive, risk-seeking and innovative and that moves beyond national borders, aiming to create value in the organisations.

International entrepreneurship discussion often features innovation which is argued to be an important part of entrepreneurship in general. The Merriam-Webster dictionary (cited 15.6.2015) defines innovation as “a new idea” or “the introduction of something new” while according to Bloomsbury Business Library (2007, p. 3902) innovation is “the creation, development, and implementation of a new product, process, or service with the goal of improving efficiency, effectiveness, or competitive advantage”. International entrepreneurship discussion has also brought up the concept of international opportunities in the market. Entrepreneurs identify, create, and exploit these opportunities to make business in a new, innovative way in the international markets (e.g. Mainela et al, 2014; McMullen & Shepherd, 2006).
According to Peter Drucker (1985) systematic innovation is at the very heart of entrepreneurship. Innovation is crucial for firms’ growth and survival especially in today’s challenging global business environment (Hagen et al, 2014). The competitive advantage of a firm derives from the development and use of intangible assets in current global economy which has been changed by faster innovation (Al-Aali & Teece, 2014). Chandy and Tellis (2000) argue innovation to impact firm performance positively as it can help gain new customers and outdo the competition.

According to Zucchella and Siano (2014) there is a strong positive correlation between innovation and internationalisation which are the two most important strategies for a firm. Lecerf (2012) states that in terms of competitiveness the most valuable approach for a firm is to have a combined strategy which pairs product development with expansion to new international markets. The innovation capabilities of a firm are also argued to have a positive impact on its internationalisation endeavours (Yu & Si, 2012). In addition entrepreneurial attitude is shown to have a significant role in firms’ internationalisation process (Hagen et al, 2014; Onetti et al, 2010). Thus based on previous research it can be concluded that these three areas – internationalisation, innovation, and entrepreneurship – are connected and combining them into one framework could provide with new insights to the internationalisation discussion.

As the Finnish fashion industry is under pressure to move beyond national borders, this kind of a setting fits it well. Thus examining the internationalisation of Finnish fashion industry through such a framework is valuable. As international entrepreneurship research concerns also small firms it is suitable for discussing the industry which mostly consists of small firms. Innovativeness is important in fashion business as well: designers have to re-invent and create new collections even multiple times a season and stand out from others (Vila & Kuster, 2007). As a creative industry, fashion field can be argued to be innovative in itself.

1.1 Research problem and gap

Based on the literature concerning the internationalisation of Finnish fashion firms it can be concluded that there are several challenges that these firms face when aiming
to international markets (e.g. Falay et al, 2007; Lille, 2010; Mäntylä, 2011). These challenges can be separated into two types: firm-level and industry-level ones. The firm-level challenges have been studied rather widely by researchers (e.g. Falay et al, 2007; Lille, 2010). However, besides a very few studies (e.g. Takkinen, 2013) there still remains a lack of research concerning the industry-level challenges and their impact on Finnish fashion firms’ internationalisation. This study will approach the problem from a new viewpoint by combining innovation and internationalisation discussions and by examining what kind of impact the industry-level challenges have on the innovation or firm’s complementary assets, and if they are preventing firms from profiting from their innovation. In order to enhance the Finnish fashion firms’ chances of successful internationalisation it is highly important to peruse the problem of combining commercial viability and successful internationalisation, and define the actions that need to be taken to overcome it. The internationalisation challenges generic to the firms in the Finnish fashion field often seem to originate from certain industry characteristics (Lille, 2010). Thus, in order to reach a more profound understanding of the situation and to find means firms can utilize in their internationalisation endeavours, the challenge-causing industry characteristics and their impact on firms need to be studied more in depth.

Combining successful internationalisation and profiting from innovation is a topic that still holds a lot to examine. The interplay of internationalisation, innovation and entrepreneurship is an understudied research field (Hagen et al, 2014; Onetti et al, 2010). In addition, majority of innovation research focus on technology firms and their internationalisation. In this study a new framework will first be developed by combining internationalisation, innovation, and international entrepreneurship theories and then applied to the fashion industry.

### 1.2 Research questions and methods

This study will concentrate on examining how industry characteristics affect firms’ internationalisation success, and do challenges related to profiting from innovation have an effect on this relationship in the context of Finnish fashion industry. The aim is to form an understanding of the current state of the internationalisation of Finnish fashion firms, identify and describe the challenges and find means to overcome them.
The main research question is:

*What are the main industry-level challenges that influence the Finnish fashion firms’ chances to internationalise successfully?*

Three sub-questions are derived from the main research question:

*Which specific industry features have an effect on firms’ internationalisation?*

*Which specific industry features have an effect on profiting from innovation?*

*How challenges in the industry and in profiting from innovation contribute to firms’ internationalisation?*

The data will be collected both through literature review and interviews in addition to previously collected Finnish data. A successful Swedish fashion firm will be interviewed to compare the situation in the two countries. The study aims to describe the phenomenon and give suggestions to entrepreneurs and managers of Finnish fashion firms and other representatives of the industry on how to overcome the challenges posed by the industry characteristics and how to enhance their chances of successful internationalisation.

### 1.3 Structure of the study

The study aims to the answer the research questions in the following chapters. First, in order to build a relevant framework for this study an overview of the Finnish fashion industry will be provided. Second, the study will present a variety of internationalisation and innovation studies that complement the theoretical framework. After that the empirical data, i.e. the case company interviews will be presented and examined. In the last chapter conclusions will be drawn and suggestions given based on the findings of the study.
2 FASHION INDUSTRY

As mentioned in the previous chapter, the theoretical framework for this study will be created by combining innovation and internationalisation theories in the context of Finnish fashion industry, an overview of which will be provided in this chapter. Discussion in this part will mainly focus on the industry-level characteristics and challenges, which will be presented more in detail. For comparative purposes characteristics and current situation of Swedish fashion industry will be presented as well.

2.1 Finnish fashion industry

Finnish fashion firms seem to have the prerequisites for internationalisation but yet there currently are only very few brands that are successful outside the domestic market, as mentioned in the introduction chapter. Finnish clothing industry has however seen better days as well. The Finnish clothing industry started to boom in the 1960s due to great amount of exports to the east, and in the mid-1970s it employed as many as 35 000 people (Sykkö, 2015). However, in early 1990s the dissolution of the Soviet Union and the recession had a drastic impact on the industry, and the number of Finnish fashion firms have been reducing since (Sykkö, 2015; Lille, 2010). It can be argued that Finnish fashion industry had, so to speak, put all their eggs into one basket by focusing on producing clothing with high volumes mainly for the USSR market and thus neglecting product development and marketing towards the Western markets (Sykkö, 2015). Had that been done, the dissolution of the Soviet Union might not have had such dramatic consequences to the Finnish clothing industry. Domestic clothing business has also been greatly impacted by import which has between 1990 and 2014 risen from approximately 500 million euros to 1400 million euros (Finnish Textile & Fashion, 2015). During the same time period the clothing export has stayed around 200 million euros until exceeding 300 million euros in 2011 (Finnish Textile & Fashion, 2015). According to Finnish Textile & Fashion (2015) the majority of clothing export from Finland goes to Russia, Sweden and Germany.
In Finland, the industry is still rather seen as textile and clothing industry, i.e. concentrating on manufacturing and technical aspects, and not so much as a fashion industry, the heart of which is in creating new, intangible value as well as marketing experiences (Lille, 2010). This can be seen to be due to the industry’s long tradition in textile manufacturing (Kouvalainen, 2011). Finnish fashion industry is nowadays relatively fragmented into many actors with varying business models: there are a few large textile and clothing manufacturing companies and numerous small firms lead by designer-entrepreneurs (Lille, 2010). The current economic situation impacts the fragmentation of the industry as well: the latest example is the Finnish textile and clothing manufacturer Nanso Group which, after years of unprofitable business, announced in September 2015 to start co-operation negotiations concerning its factories in Finland (Nanso Group web page, retrieved 13.9.2015). Thus in the lack of large fashion houses, the base for the current fashion industry in Finland is mainly formed by small entrepreneur-driven firms. The majority of them emphasise design and quality, and some concentrate on luxury goods. Currently there are no domestic fashion firms operating with a fast fashion business model based on frequently changing collections and fast turnaround time, such as Spanish Zara or Swedish Gina Tricot.

This kind of industry structure poses challenges to the creation of new businesses as well. Due to the lack of large domestic fashion houses young Finnish designers have very few opportunities to gain work experience from the field (Lille, 2010). The situation is thus very different e.g. compared to Sweden, where many designers are able to work for and get experience from fashion giants such as H&M (Lille, 2010). Many Finnish designers, in the lack of job opportunities, have to start their own firms without proper work experience and competence which often leads to failure (Lille, 2010). The competition is rough, too. Finnish market is small and narrow (Luostarinen & Gabrielsson, 2006; Salimäki & Gabrielsson, 2005), and thus challenging for small firms to compete with big international retail chains who can every year offer several collections with low prices. Finnish fashion firms are not able to produce their collections with such volumes and low labour costs, and thus cannot compete with price. Even based on these features it can be argued that Finnish fashion industry is a challenging environment for firms. In the next paragraph these industry-level challenges among others will be discussed more in detail to create a
more profound view on the arduous situation Finnish fashion firms seeking to internationalise are in.

2.2 Industry-level challenges

Based on previous research on the issue there are several different kinds of industry-level challenges fashion firms face when aiming for international markets. In this study they are divided under following sub-headings: institutional factors, product, market, foreign networks, general attitudes and government support, and branding.

2.2.1 Institutional factors

As mentioned earlier, the Finnish fashion industry is very fragmented into big enterprises and small firms. This kind of fragmentation regarding firm structures makes a design industry vulnerable (Power et al, 2006). In addition to the lack of resources needed for international growth, small fashion firms do not have adequate networks with other organizations in the industry either (Lille, 2010). As Power et al (2006) argue, in order to remain competitive in the international markets small design firms need collaborative networks to create intricate design packages. Lack of this kind of networking can be argued to worsen the competitiveness of Finnish fashion industry and its firms in the global markets.

Networking within an industry is closely related to clusterization. Clusters are “geographically integrated companies and associated organizations that share together technological know-how, knowledge, skills, competencies, and resources” (Navickas & Malakauskaité, 2009, p. 256). Navickas and Malakauskaité (2009) further argue clusters to improve the development and growth of especially the SME sector as they provide firms with new options to gain access to international markets and reduce manufacturing costs. By benefiting from these kinds of cluster-related externalities small firms could improve their competitiveness in the international markets (Zyglidopoulos et al, 2006). In Denmark, clusterization has had positive impact on firms as well as on the national economy (Macoun et al, 2007). This kind strong fashion industry cluster comprising of industry organizations and educational
and research institutions providing entrepreneurs and firms with support does not exist in Finland.

In addition to the lack of clusterization the institutional setup of Finnish fashion industry is weak and all in all scattered. Compared to Sweden where different organizations in the fashion industry are collected under Moderådet, i.e. the Swedish Fashion Council, in Finland there is no such umbrella organization (Lille, 2010). Political lobbying and promoting of such an industry with no coherent representative bodies is difficult (Power et al, 2006). As already mentioned, the industry is clearly divided into big textile and clothing manufacturers and small designer-entrepreneur-driven firms. Despite this, the business development support provided by the government is practically same for all firms and thus neglects the fact that enterprises of different sizes require different kinds of support (Lille, 2010). However, some improvements have been made. Finpro and its Luovimo, which is an internationalisation program for firms in creative industries, organize workshops and growth programs for small and medium-sized fashion and lifestyle firms (Export Finland web page, retrieved 27.8.2015). Some steps to enhance the internationalisation of Finnish fashion firms have thus been taken into the right direction in the public sector. However, following the suggestion by Power et al (2006), Finnish fashion industry should still seek to improve the institutional setup by careful coordination of its organizations to ensure that its needs are taken into account in government-level decision making.

The education system has to be developed as well. In its current form, it is focused mainly on arts and crafts, and often fails to provide designer students with a needed view on the commercial side of fashion business (Lille, 2010; Power et al, 2006). The knowledge base thus is not sufficient for successful entrepreneurship (Power et al, 2006) and in order to enhance fashion students’ understanding of business aspects they should cooperate with business students, for example (Lille, 2010).

Intellectual property rights, i.e. IPR is another challenge often related to the fashion industry. As Holton (2014) and Derclaye (2010) argue, IPR is often considered insufficient in the fashion industry, despite protective efforts such as national copyright and competition laws and Design Directive and Design Regulation within
the European Union. Trademark practices merely protect the company logo, and copyrights do not offer protection for the actual garments, but only for the sketches of them (Holton, 2014). Inadequate legislative protection is a challenge especially for small fashion firms who often do not have the resources to prevent copying (Falay et al, 2007). However, at the same time the problematic nature of copying in fashion field could be questioned. Copying can actually bring a firm more publicity, as it did happen for Marimekko when it contested Italian fashion house Dolce & Gabbana for using a floral pattern similar to the Finnish textile house’s Unikko motif (WWD, 2008). Throughout the history of fashion designers have been inspired by each other’s designs, and as it is commonly known, fashion is in continuous motion and same trends make a comeback every few years. Raustiala and Sprigman (2006) further argue that fashion innovators actually benefit from copying as it accelerates the fashion cycle and thus generate more sales via faster turnover. Thus copying can be seen as a challenge that can be benefited from as well.

2.2.2 Product

One of the features of fashion industry is the fast fashion cycle which shortens product life cycle as well. In order to stay competitive fashion firms need to bring innovative products to the market in a quick pace which is very resource-demanding (Holton, 2014; Raustiala & Sprigman, 2006). The already mentioned copying and the variation of seasonal trends keeps fashion in a state of continuous change. To keep up with this designers are practically forced to bring out new collections several times a year which requires a lot of effort and resources.

Even though it undeniably is important for a fashion firm to distinguish itself from the competitors, in Finland it usually is done through deviant product design, and often on the expense on wearability of the garment (Lille, 2010). Uniqueness is also emphasized in design education. As Lille (2010) states, it should be treasured while keeping in mind that clothes are utility articles. Hence uniqueness should be transferred to finding new ways to do business as commercial aspects after all are an important part of designer’s work (Lille, 2010).
In addition to being realised on the firm-level, the issue of adaptation is a distinctive feature of the industry as well. When firms head towards international markets, they usually can choose from two strategies: they can either create general products for global markets, or they can develop products adaptable to different markets (Powers & Loyka, 2010). Product is adapted to different markets by making changes in its or its packaging’s aspects and attributes (Cavusgil et al, 1993) which obviously can be costly. According to Lishchenko et al (2011) products that are adapted to certain market also respond to the needs of the customers in that market, and thus adaptation is in the long run more beneficial. Design is perceived differently and strongly influenced by different cultures which speaks for local adaptation in order to gain international success (Moalosi et al, 2010; Salimäki & Gabrielsson, 2005). However, the competitive advantage of fashion firms is often based on the unique nature of the product and adapting the product could thus lead in losing the distinctiveness of the firm (Lishchenko et al, 2011). Fashion firms should thus carefully look for the balance between strategies of product adaptation and standardization to internationalise successfully.

2.2.3 Market

Finland, due to its small size and thus limited volume, is a challenging local market that pushes firms to internationalise (Falay et al, 2007; Gabrielsson & Luostarinen, 2006). The retail structure in Finland has gone through drastic changes during the last couple of decades. The hypermarket segment has grown its share in clothing sales since the 1990’s which at the same time has resulted in many small, independent retailers closing down (Council of State report, 2006). The small number of potential retailers makes the market too narrow (Lille, 2010). The local market is thus challenging for fashion firms, and it can be argued that in many cases fashion entrepreneurs sacrifice their scarce resources in the domestic market, which then makes it harder to succeed in the international markets.

The consumer base makes Finland a challenging domestic market as well. Finnish consumers can be described as conventional and trend following rather than trendsetting, which makes the Finnish market a difficult platform for innovative designers: i.e. firms with unique and trendsetting products find it hard to generate
profits here (Falay et al, 2007). Investing in clothing has not traditionally been highly appreciated in the Finnish culture. Finnish consumers tend to spend less money on fashion and clothing than other Western European consumers (Happonen, 2014). This makes generating profits in the home market difficult which in turn can create an obstacle for successful internationalisation.

In addition to the local market the customer base can be challenging in the international markets as well. Tastes in design vary and change within and across different customer groups which is challenging for firms in design-intensive industries (Falay et al, 2007). In order to succeed outside the domestic market a fashion firm needs to identify its international customer segments. It is a challenge for a fashion firm to design products that at the same remain distinctive and attract customer segments in different markets (Falay et al, 2007).

2.2.4 Foreign networks

Suitable foreign networks can also enhance fashion firm’s chances of successful internationalisation. Lille (2010) states that finding suitable partners in foreign markets is one of the most significant challenges in Finnish fashion firms’ internationalisation. Through foreign networks firms can find the needed cooperators as well as gain insights to a certain market which can also help overcome the difficulties due to cultural differences. A firm can overcome the liability of outsidership by benefiting from its foreign partners’ knowledge, which can be gained through exchanges in the network (Johanson & Vahlne, 2009). It can be thus argued that Finnish fashion firms are experiencing difficulties to internationalise as they, due to lack of foreign networks, suffer from the liability of foreignness.

Low level of international networking can also lead to lack of connections to certain authorities in the fashion industry. Falay et al (2007) suggest that these people, i.e. the taste elite act as gatekeepers in the fashion field. They edit leading fashion magazines and judge fashion competitions: for example, the jury of Hyères International Fashion Festival 2015 included the head designer of Chanel and the former editor-in-chief of Vogue Paris (Sykkö, 2015), which both are some of the most influential actors in the fashion business. As references, visibility, and
reputation are highly important to succeed in the fashion business, having connections to these authorities can be crucial for a fashion entrepreneur seeking to internationalise.

2.2.5 General attitudes and government support

The brand of Finnish textile and clothing industry in general is weak and fashion industry is not very appreciated. According to Lille (2010) industry is also relatively unknown to investors and thus raising funding is difficult. In the last couple of years the situation has improved as the industry has raised more interest in the media, both in Finland and across borders. However, the fashion industry is often presented in a very light sense which diminishes its credibility as a serious field on business. There thus still is room for improvement. To make the industry more understandable and attractive business-wise to outside investors, fashion entrepreneurs should provide them with financial information (Lille, 2010).

Even though the Finnish government has emphasized developing the design field e.g. through the national design policy earlier mentioned, the support offered to entrepreneurs in general is not considered adequate (Lille, 2010). More systematic support is needed e.g. in terms of entrepreneurs’ taxation and value added tax which currently might be holding back potential entrepreneurs (Lille, 2010). This is especially important now that the Finnish economy is changing drastically due to changes in the global economy, and new ways to generate business need to be sought for.

Global consumer behaviour trends have a significant impact on fashion firms, as well. As consumers’ disposable incomes have been growing, instead of mere functionality they also are seeking for products that bring aesthetic or “positional” value or experience (Power et al, 2006). The value added by good design has grown its importance during the rise of the so called experience economy. However, the economic downturn ignited by the recession in 2008 has had a significant impact on the spending behaviours, and this can be seen even amongst the more affluent consumers (Wu et al, 2013). Consumers are more frugal in their spending also in the long-term (Aversa & Condon, 2010). Conscious spending and sustainable
consumption altogether are now trending amongst consumers which compels fashion firms to produce more ecological and socially sustainable products (Plieth et al, 2012). This trend can, however, also be seen as a possibility instead of a threat as it offers fashion firms new ways to do business and target this ethically conscious consumer group. Fashion firms should thus adjust their strategies to fit the changing business environments to remain competitive.

2.2.6 Branding

As mentioned, the brand of Finnish fashion is weak. In comparison, the concept of Swedish fashion is well-known worldwide, due to systematic brand building over the years (Lille, 2010). Even though branding is an important task for individual firms, it should be done on the industry-level as well to enhance the internationalisation chances of Finnish fashion firms.

2.3 Swedish fashion industry

Sweden makes a good parallel to Finland as there are many similarities between the two countries: both are small and open, knowledge-intensive economies that offer great quality higher education in design. In addition, Scandinavian and Nordic design is a globally well-known concept for the quality and high degree of fashion it represents (Gundtoft, 2013). However, it seems that in Sweden these assets have been better taken advantage of than in Finland. The export figures illustrate the situation well: while the Finnish export of textiles and clothing was worth 565 million euros in 2014 (Finatex, 2015), the value of Swedish fashion export in 2013 was 147 billion Swedish kronor (Swedish Fashion Industry, 2015), i.e. approximately 15 billion euros. The difference is drastic, even when excluding H&M, the Swedish fashion giant, exports of which were worth 123 billion SEK in 2013 (Swedish Fashion Industry, 2015). H&M has an undeniably great significance to the fashion industry in Sweden: in 2013 its total sales were almost 129 billion SEK, i.e. 54% of the total Swedish fashion industry (Swedish Fashion Industry, 2015). H&M also acts as a significant incubator for Swedish fashion designers, many of which have gained valuable know-how and experience working for the company before becoming entrepreneurs (Svengren Holm & Tijburg, 2013).
3 INTERNATIONALISATION

The previous chapter provided an overview of the Finnish fashion industry, i.e. the context of this study. This part of the thesis will continue forming the theoretical framework by discussing internationalisation research and its versatility. In order to present a conclusive view of the field several research streams will be briefly presented before focusing on the international entrepreneurship and innovation opportunity discussions.

3.1 The multi-faceted research on internationalisation

As mentioned earlier the internationalisation discussion consists of numerous research streams and opposing viewpoints. The Uppsala model by Johanson and Vahlne (1977) is one of the best known representatives of the traditional theories (Kontinen & Ojala, 2012). They see internationalisation as an incremental process in which firms move from domestic to international markets step by step while gradually acquiring more resources and knowledge. The Uppsala model suggests that the internationalisation process of a firm starts from occasional exports leading to regular exports (Johanson & Vahlne, 1977). This learning theory perspective proposes that the building of foreign commitments is a sequential and evolutionary process. Without sufficient amount of resources and information of foreign operations and markets a firm could be unable to internationalise successfully (Johanson & Vahlne, 1977). Stöttinger & Schlegelmilch (1998) emphasise the importance of “psychic distance” in market selection, i.e. firms should start their internationalisation process by entering nearby market with similar cultures and political system, for example.

Another popular research stream is the resource-based view (RBV) which concentrates on the firms’ internal resources (Wernerfelt, 1984). These resources are the source for the core competencies and services which have a significant role in creating competitive advantage and enhancing firm performance and growth (Connell, 2008). Firm’s resources could be, for example, capital, brand names, skilful employees or some other intangible or tangible assets that the firm possesses
(Wernerfelt, 1984). RBV has influenced the international business discussion significantly as well (Peng, 2001) and is also used to explain the phenomenon of international entrepreneurship (Peiris et al, 2012). Firms can also make a strategic choice to search for new resources and other opportunities internationally (Peng, 2001; Knight, 2000).

The Uppsala model has been criticised for focusing merely on large, mature multinational companies and neglecting the phenomenon of new, smaller firms with limited resources succeeding in international markets as well (Oviatt & McDougall, 1994). The process theory also suggests that internationalisation happens due to unsolicited push or pull from the market rather than through a strategic entrepreneurial choice (Autio et al, 2000). Thus it has been argued that the incremental learning theory does not apply to entrepreneurial firms that internationalise early (Oviatt & McDougall, 1994). The learning theory approach has been challenged by international entrepreneurship research (Madsen, 2012). Opposed to mature MNEs that aim for international markets after home market saturation, international new ventures head towards foreign markets from inception, and thus the stage theory of incremental internationalisation does not apply to them (Oviatt & McDougall, 1994).

Both learning theory perspective and international new venture discussion suggest networks to be important for an internationalising firm as well. Johanson and Vahlne (1977) argue that learning on the organisational level is facilitated by networks. According to international new venture research discussion gaining new resources and finding opportunities by cooperating across national borders happens in individual and social networks (Oviatt & McDougall, 1994; Kontinen & Ojala, 2012). It is also suggested that an international new venture can gain more value from having a network in a certain, even distant foreign market than from entering a market with a small psychic distance (Jansson & Sandberg, 2008). In their revised learning theory model Johanson and Vahlne (2009) also discuss the importance of networks and suggest that a firm’s success in foreign markets depends on whether it has an insider position in the relevant networks. When entering a foreign market without a position in the network a firm will suffer from the liability of outsidership and liability of foreignness, which refer to e.g. lack of market-specific business
knowledge and institutional knowledge (Johanson & Vahlne, 2009). To overcome these obstacles a firm needs to build relationships with the network insiders (Schweizer, 2013).

There are numerous viewpoints to internationalisation of firms, as it has been proposed in this study. The internationalisation of Finnish fashion firms could be examined from various theoretical perspectives. This study finds the international entrepreneurship research to be the most beneficial and suitable for studying the industry which mainly consists of small designer-lead firms. This research stream will be discussed more in detail in the following paragraph.

3.2 International entrepreneurship

As mentioned in the previous paragraph, the international entrepreneurship discussion has challenged the traditional views on internationalisation. As a research phenomenon it started to emerge in the 1980’s (Oviatt & McDougall, 1994). In their seminal article Oviatt and McDougall (1994) define international new ventures as firms that from inception seek for competitive advantage via sales and use of resources in multiple markets. The origins of these firms are international, they have a proactive international strategy from the very beginning, and instead of their size the focus is on their age at the time of internationalisation (Oviatt & McDougall, 1994). International new ventures were the starting point for the research stream of international entrepreneurship (Oviatt & McDougall, 2005). Later the definition of international entrepreneurship has been elaborated, e.g. as “the cognitive and behavioural processes associated with the creation and exchange of value through the identification and exploitation of opportunities that cross national borders” (Peiris et al, 2012, p.296). The core of the phenomenon and the definitions for it however have stayed the same: international entrepreneurs seek to create competitive advantage across national borders with a proactive strategy.

Since its emergence the international entrepreneurship field has grown and developed by combining elements of strategic management, international business, entrepreneurship, and other theoretical perspectives (Peiris et al, 2012). This has resulted in a versatile theoretical discussion of international entrepreneurship which
strives to explain the phenomenon from various angles. As Mainela et al (2014) propose, the focus is no longer only on international new ventures but rather on different kinds of international entrepreneurial behaviours. As mentioned earlier, the resource-based view has had a significant impact on the international entrepreneurship discussion. Building on resource-based theory, it can be argued that in order to create a competitive advantage an internationalising firm needs certain resources, such as exquisite knowledge on opportunities in the international markets and the capability to use them for one’s benefit (Peng, 2001). The knowledge-based view also sees knowledge as the most important resource an internationalising firm can have, and knowledge intensity has been argued to have a positive impact on growth of international sales (Yli-Renko et al, 2002). The concept of knowledge intensity refers to how dependent a firm is on its existing knowledge base (Autio et al, 2000), and it is knowledge-based view’s main contribution to the international entrepreneurship discussion (Peiris et al, 2012). The importance of knowledge is also highlighted in the dynamic capabilities research stream which in the international entrepreneurship context discusses what kinds of capabilities entrepreneurial firms need to possess to internationalise successfully (Peiris et al, 2012). Certain firm-level dynamic capabilities such as international experience, financial capabilities and marketing orientation have been argued by researchers to be related to firm performance (Kuivalainen et al, 2010; Kocak & Abimbola, 2009). Also the network theory is a well-used approach in explaining entrepreneurial firms’ internationalisation processes, and has thus made a remarkable impact on the international entrepreneurship research through the wide range of studies concerning both business and social networks of entrepreneurs (Peiris et al, 2010).

It has been suggested by many researchers that firms can benefit from early internationalisation, and that a period of developing activities only in the home market is not crucial for the firms’ survival. For example, Sapienza et al. (2006, p.915) propose that “the earlier a firm internationalizes, the more deeply imprinted its dynamic capability for exploiting opportunities in foreign markets will be”. Firms that enter international market sooner are also able to start their learning process in an earlier phase (Autio et al, 2000). There indeed are many advantages to starting the internationalisation process early.
3.2.1 Opportunity

The concept of opportunity is emphasized throughout the international entrepreneurship domain. As the main theories of international entrepreneurship have developed, along with them the significance of the international opportunity concept has grown as well (Mainela et al, 2014). This emphasis seems very justified as like McMullen & Shepherd (2006) argue, identifying and pursuing an opportunity is the basis for entrepreneurship. Eckhardt and Shane (2003, p.336) define entrepreneurial opportunities “as situations in which new goods, services, raw materials, markets, and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships” while Sarasvathy et al (2003, p.79) suggest an opportunity to be “a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them”. It can be thus argued that the entrepreneur’s own actions combined with behaviours can create a basis for an opportunity, or it can rise from changes in the value chain (Mainela et al, 2014). In their later study Mainela et al (2014, p. 120) define opportunity as “a situation that both spans and integrates elements from multiple national contexts in which entrepreneurial action and interaction transform the manifestations of economic activity “. This definition is coherent with both opportunity discovery and creation views, which will be discussed more in detail below.

There indeed are varying views regarding where opportunities rise from. One of the most cited theories is by Kirzner (1973), according to whom entrepreneurs discover opportunities merely by luck from markets that never are in equilibrium. Denrell et al (2003) similarly conclude that entrepreneurs seize opportunities with a combination of serendipity and effort, but also flexibility and alertness. Shane (2000) in a similar sense argues that prior knowledge of entrepreneur impacts significantly the discovery of opportunities, and thus entrepreneurs should, instead of trying to find opportunities from new paths, focus on what they already know. Following Kirzner (1997) who suggests that opportunities can be recognized within already existing business activities rather than with activities specifically seeking for them, Shane (2000) argues that when conducting an opportunity analysis a firm should concentrate on its own internal resources.
Opposed to the opportunity discovery view, it is argued that mere discovering and recognizing of opportunities is not enough as “opportunities are made, not found” (Ardichvili et al, 2003, p. 106). This so-called Schumpeterian view of opportunity creation suggests that opportunities are created and realized in the market by a firm (Schumpeter, 1934 via Johanson & Vahlne, 2009; Gelluda et al, 2003). Supplementing this view the network perspective suggests that in order to create viable business from an opportunity, it has to be developed in interaction with partners (Johanson & Vahlne, 2009; Ardichvili et al, 2003). During their interaction partners develop privileged knowledge which could form a basis for finding opportunities unrecognizable to other actors in the market (Agndal & Chetty, 2007). Firms should thus regard relationships as a resource that needs active management and can be profited from, also in their internationalisation endeavours as social ties are of great importance when entering foreign markets (Agndal & Chetty, 2007; Yli-Renko et al (2002). Johanson and Vahlne (2009) discuss opportunity recognition in their revisited version of the Uppsala model in which they perceive the business environment rather as a network of relationships, and they argue for both opportunity discovery and creation. According to them the network nature of business also affects the firm’s possibilities to recognize and utilize opportunities. As opposed to Kirzner (1973; 1997) and Shane (2000) who see the discovery of opportunities dependent on firm’s own internal knowledge, Johanson and Vahlne (2009) argue firms to be able to discover opportunities by accessing their network partners’ partially available information as well, i.e. external resources.

Some studies suggest that the discovery and development of opportunities is dependent on the individual traits and innovativeness of the entrepreneurs. Opportunities rise from entrepreneurial creativity which occurs when entrepreneurs seek to find options that are better and have more value than current, dissatisfying ones (McMullen & Shepherd, 2006; Schumpeter, 1934 via Mainela et al, 2014). In such situations business has to be created through an economic invention, i.e. the entrepreneur has to find a completely new way to make business (Eckhardt & Shane, 2003; Sarasvathy et al, 2003). This kind of creative destruction shifts markets away from equilibrium (Schumpeter, 1934 via Mainela et al, 2014). This kind of competitive imperfection is created by the novelty value of an innovation opportunity, and it is also the basis for the value creation (Mainela et al, 2014).
McMullen and Shepherd (2006) suggest that the development of these innovation opportunities rests mainly on the individual traits of an entrepreneur, such as attitude and motivation. According to Shane (2012) to exploit innovation opportunities an entrepreneur needs to find an innovative way to recombine the needed resources. He further argues that even though the amount of innovativeness required for resource recombination varies from opportunity to another, it always is involved in the exploitation of entrepreneurial opportunities, at least to some extent.

As mentioned earlier, divergent thinking i.e. creativity plays in an important role in entrepreneurship, and especially in opportunity creation. However, in order to successfully identify business opportunities in the market an entrepreneur needs to enhance the positive effect of creativity with active information search, which can even compensate for the entrepreneur’s possible lack of experience (Gielnik et al, 2012). With high level of active information search the amount of experience has no effect on business opportunity identification: in fact it has been shown that entrepreneurial experience has a positive effect on it only up to a certain level (Gielnik et al, 2010; Ucbasaran et al, 2009). The lack of experience thus is not necessarily a liability if the entrepreneur strives to compensate for it with other means. An entrepreneur can seek for knowledge from external sources which can have a significant impact on both opportunity recognition and exploitation (Foss et al, 2013). Entrepreneurs should invest in knowledge by interacting with various sources as high level of knowledge results in more opportunities to be created and exploited (Foss et al, 2013; Audretsch & Keilbach, 2007).

The focus of this study is on the industry-level challenges of Finnish fashion, and not on the firm-level features, as mentioned earlier, However, one of the distinctive characteristics of Finnish fashion industry is that it mainly consists of small, designer-entrepreneur-driven firms (Lille, 2010). Thus applying international entrepreneurship research in the theoretical framework used for examining the industry and its features is beneficial and justified. In this study the industry-level challenges are discussed also from the viewpoint of individual firms. Many of the challenges are realized on the firm-level, but as they are very common amongst the firms in the industry, they are considered as industry-level challenges.
4 INNOVATION

After discussing the Finnish fashion industry and internationalisation in the previous chapters, in this part of the study concentrates on innovation, which forms the third component of the theoretical framework. Before discussing the relationship between innovation and internationalisation in the next chapter, this part of the study will present innovation research first in general, and then focus on theories concerning profiting from innovation.

4.1 Importance of innovation

Being innovative is crucial for firms’ survival. They need to develop innovative products and profit from them to be able to build their competitive advantages (Teece, 2006; 1986). Only when a new product generates enough sales to cover the development costs it can be argued to be profitable (Gilbert, 1995). Product innovation can have an important role in market competition and successful internationalisation as it can induce economic growth and even provide small firms with a leading position in the market (Chandy & Tellis, 2000). Innovation is an important strategic activity needed for successful market performance, and it also is a source for international growth for a firm (Osuna, 2014; Zucchella & Siano, 2014). However, several researchers have argued that innovating firms often miss out on gaining the profits from the innovation as they are collected by other parties in the market (Su et al., 2012; Koellinger, 2008; Teece, 2006; 1986). Even the most innovative firms fail to achieve their competitive advantage if they cannot profit from the innovation (Pisano, 2006). This kind of failure can be due to lack of certain complementary assets, such as financing or marketing capabilities, which according to Teece (2006; 1986) are crucial for profiting from innovation. Teece’s profiting from innovation theory will be discussed more in detail in the following paragraph.

4.2 Profiting from innovation

In his seminal article Teece (1986) aims to explain the reasons behind the problem of innovators failing to capture value from their investments in products with
commercial utility even when they already are successfully brought to the market. This is an aspect also bothering the Finnish fashion industry: there are products in the market with great potential for commercial success, but for some reason the firms do not seem to manage to profit from them. Based on his studies Teece (1986) argues that being able to profit from an innovation depends on firm structure, good intellectual property protection and complementary assets. In addition to these, Teece (2006) in his revised profiting from innovation (PFI) model proposes management’s ability to make market entry timing decisions to have an impact as well, while the market share of the firm is suggested to be less important. The importance of contractual structures to access possible missing assets is highlighted as well (Teece 2006; 1986). Teece (1986) identifies three important building blocks in his framework: the complementary assets, the dominant design paradigm, and the appropriability regime. Especially the two latter aspects are relevant mostly within the technology industry, and thus they are not discussed more in detail in this study.

According to Teece (2006; 1986) an innovation comprises of certain knowledge which has to be utilized or sold in the market to make profit, and other assets or capabilities that complement the know-how and are needed to commercialize the innovation successfully. For example, in order to commercialize a fashion innovation successfully a firm would need complementary assets such as well-built brand, sufficient financing, and production capabilities. Teece (2006; 1986) presents three types of complementary assets: generic assets, which do not need tailoring to the particular innovation; assets specialized to support certain innovation; and co-specialized, i.e. complementary-specialized assets, regarding which there is a bilateral dependence between the innovation and the asset. According to Teece (2006; 1986), in tight appropriability regimes where the innovation is protected from imitation with e.g. a patent, the innovator has time to access these assets. However, in most cases the appropriability regime is weak and thus the innovator has to develop a business strategy that protects the innovation from imitation (Teece, 2006; 1986). This applies to the fashion industry as well: as mentioned earlier in the study, the legal protection mechanisms for fashion products are weak, and fashion firms thus need to seek for other practices to ensure profiting from their innovations.
The framework by Teece (2006; 1986) illustrates how firms can generate more profit by using their know-how and other assets that are difficult to replicate. According to Teece (1986) it is highly important for an innovating firm to have access to complementary assets to avoid imitator and follower firms collecting the profits. An innovator needs to gain hold of the critical assets by establishing a suitable control structure, and all or some of the needed assets can be integrated (Teece, 1986). In his article Teece (1986) also suggests that it can be beneficial for innovators especially in weak appropriability regimes to identify what are the most critical complementary assets in terms of the business and then aim to integrate them. Pisano (2006) similarly proposes that in weak appropriability regimes complementary assets, which often rely on the capabilities of the firm, are highly essential when seeking to capture value on innovation. PFI model suggests outsourcing many of firm’s functions unless it is critical to internalize them (Teece, 2006). Finding the core capabilities and assets and integrating them is highly important for a fashion firm as well. Keeping all the functions from designing to manufacturing and marketing internal is not sensible nor efficient for small fashion firms. Functions and assets other than the core capabilities, such as design, should thus be outsourced. However, having the needed knowledge or other intangible asset does not automatically result in returns for the creator (Teece, 2006). Business model has an effect on commercial success as well: creating an efficient and unique design of business, which is critical for profiting from innovation, comes down to choices regarding how the firm captures value (Teece, 2006).

Obtaining and using complementary assets is affected by the size of the firm. When a large firm brings a new innovation to the market, it is more likely to already obtain needed specialized and co-specialized assets while small firms are not. When introducing an innovation to the market a small firm quite likely has to direct resources towards either building the relevant assets or getting them from partners through contractual modes. (Teece, 1986) Finnish fashion firms often suffer from this as well: bringing a product to the market is a costly process, ranging from designing the product to manufacturing and marketing it, and finding distributors to it. As proposed earlier, Finnish fashion firms rarely run all these activities in-house, and thus firms have to build their resources and assets before being able to bring the product to the market (Takkinen, 2013).
Firm’s boundaries play an important strategic role when commercializing an innovation. Imitator firms can often perform better than the innovating firms if they have a better position regarding the critical complementary assets. When stimulating innovation government needs to focus on enhancing complementary assets as well as on removing the barriers coming from the underlying infrastructure that prevent the development of complementary assets. National policies together with the firm structure have a more profound effect on the distribution of profits than the structure of the markets. (Teece, 1986)

4.2.1 Firm’s capabilities

In order to commercialize a product innovation it has to be utilized in conjunction with firm’s capabilities (Kyläheiko et al, 2011; Pisano, 2006; Teece, 2006; 1986). Firm’s capabilities can act as complementary assets and help to protect intellectual properties, and thus are crucial for a firm to profit from innovation (Pisano, 2006). Su et al (2012) contribute to the research conversation by examining what kind of moderating effects legal, marketing, and technological capabilities have on the relationship between firm performance and product innovation, and how they vary in differing environmental contexts. Capabilities consist of accumulated knowledge and skills with which firms can utilize their assets and coordinate activities (Su et al, 2012). Legal capability concerns firm’s abilities to protect their intellectual property, handle imitations and safeguard itself from potential imitators (McGahana & Silverman, 2006). Marketing capability includes firm’s abilities in market planning, market implementation and environmental scanning (Su et al, 2010). By technological capabilities Su et al (2012) refer to firm’s abilities to develop and use technological resources. According to Su et al (2012) innovating firms should leverage their marketing capabilities and legal capabilities, especially when there is strong competition while technological capabilities should not be overemphasized.

A firm should aim to identify its core capabilities which, however, can be a challenging task (Pisano, 2006). Building on Teece’s (1986) theory Pisano (2006) suggests that identifying core capabilities requires understanding the appropriability regime. According to him in a tight regime where the innovation is well protected by legal mechanisms, a firm does not need complementary capabilities to take the
innovation successfully to the market, but rather can do it by specializing on its core capabilities. Conversely, according to Pisano (2006) in weak appropriability regimes core capabilities are not as important and a firm needs to master the complementary capabilities in order to capture value on innovation. As discussed earlier, the appropriability regime in the fashion industry is weak, i.e. the legal protection mechanisms against imitation are not sufficient (Holton, 2014). Thus having good complementary assets is highly important for profiting from innovation, as Pisano (2006) proposes. However, in the fashion industry the core capabilities of the firm often are the design aesthetics and vision, and branding, i.e. the factors that separate the firm and its products from the competitors (Lille, 2010). Thus the significance of core capabilities should not be disregarded when examining the fashion firms’ abilities to profit from their innovations.

Even though the PFI model of Teece (2006; 1986) has been developed for examining merely technology firms, it offers a suitable framework to be utilized in studying the Finnish fashion industry as well. No fashion innovation can be profited from without a good variety of complementary assets, and finding ways to operate in an industry with such weak appropriability regime requires them as well. Profiting from innovation has its effect on the internationalisation of fashion firms, too, which will be discussed further in the following chapter.
5 THE BILATERAL RELATIONSHIP OF INTERNATIONALISATION AND INNOVATION

The previous parts of the study have discussed internationalisation and innovation as separate research streams and components of the theoretical framework. This chapter will combine the two elements and discuss the relationship between them, by first presenting the versatile research on the topic, and then arguing for the importance of innovation and internationalisation in the fashion industry.

5.1 The importance of internationalisation and innovation for firms

As mentioned in the introduction chapter, the discussion on the relationship between innovation and internationalisation has been multi-faceted among researchers. The question of whether firm’s internationalisation endeavours substitute its innovation activities or rather complement them has been raised (Kyläheiko et al, 2011). In certain industries internationalisation is crucial for firm’s survival as domestic market is too small (Saarenketo, 2004). Kafouros et al (2008) in turn argue that in order to successfully capture the value from innovation firms need to have activities in several markets, i.e. internationalisation and innovation activities are complementary. They also suggest that firms should take international markets into account in strategic planning already before making any large investments in innovation, i.e. new markets should impact the innovation from the beginning. Lecerf (2012) in a similar sense argues that having a geographically versatile customer base can stimulate innovation. Firms can also find new resources by entering new markets, e.g. in the form of potential investors for innovation efforts, and thus overcome the financial limitations of the domestic market (Lecerf, 2012). She states that in terms of competitiveness the most valuable approach for a firm is to have a combined strategy which pairs product development with expansion to new international markets. Kyläheiko et al (2011) in turn suggest that internationalisation is not necessary for all innovating firms, but do however conclude that firms operating in limited domestic markets should combine innovation and internationalisation activities.
The existence of a relationship between internationalisation and innovation is generally accepted but there are differing views on what kind of a relationship it is. Many authors see it as a causal relationship, i.e. degree of one activity settles the level of other. Some argue internationalisation to determine the level of innovation as internationalisation provides the firm with a better ability to exploit new ideas and research findings created in foreign markets (Kafouros et al, 2008). By internationalising firm can benefit from ideas captured from a vast range of cultures in addition to expanding the variety of knowledge sources (Hitt et al, 1997). Internationalisation also leads into knowledge transfer between market actors (Dabic et al, 2012).

Conversely it is also argued that innovation settles the level of internationalisation. According to Wakelin (1998) the likelihood to export increases along with the number innovations the firm has. Innovation is also found to have a positive impact on the duration of export (Chen, 2012). Chadha (2009) argues that innovation capabilities predict international market penetration. Lamotte and Colovic (2013) conclude in their study concerning young entrepreneurial firms that innovating firms have a larger capacity to take their business to foreign markets.

Osuna (2014) however argues that the relationship between innovation and internationalization is still ambiguous. The two activities are rather seen as parts of a single strategy of a firm as they both determine firm performance and same factors, such as technological capabilities impact them (Osuna, 2014).

5.2 Internationalisation and innovation in the fashion industry

The research concerning internationalisation, internationalisation, and their relationship is indeed versatile. In this study it is argued that innovation and internationalisation are closely connected in the fashion industry, and that innovation is crucial for the internationalisation of Finnish fashion industry. As Lecerf (2012) and Kyläheiko et al (2011) propose, firms operating in small domestic markets can benefit from combining innovation and internationalisation efforts. Finland is an example of a small market with low volumes and financial limitations, and thus moving beyond national borders is crucial for Finnish fashion firms. This can be
done with the help of innovation. In addition, as the home market is small, the firm might not be able to profit from their innovation without entering foreign markets, as Kafouros et al (2008) and Saarenketo (2004) argue. Lecerf (2012) also states that internationalisation stimulates innovation, and in fashion industry having connections to foreign markets and operators might enable the firm to create an internationally attractive product. It is thus argued that combining innovation and internationalisation is crucial for the competitiveness and survival of Finnish fashion firms.
6 THEORETICAL FRAMEWORK

The previous chapters of this thesis discussed the Finnish fashion industry, internationalisation, and innovation, i.e. the elements of the theoretical framework, which will be drafted in this part of the study. The theoretical framework combines elements of earlier presented theories with some new additions. The phenomenon of Finnish fashion firms’ internationalisation will be examined from a new perspective. It is suggested that as the lack of international success amongst Finnish fashion firms is so widespread, there are certain industry-level challenges or characteristics that create obstacles for internationalisation. Innovation and internationalisation are proposed to have a bilateral relationship in which one can accelerate the other, and innovativeness is argued to be of high importance for fashion firms’ success in international markets. Innovating firms create new forms of business by developing and utilizing innovation opportunities in the market. Mere innovativeness, however, is not sufficient: firm has to profit from its innovations. As Teece (2006; 1986) argues, this is enabled by having suitable complementary assets and capabilities.

The framework (see Figure 1) combines elements of innovation discussion and internationalisation research in the context of Finnish fashion industry, and seeks to examine the relationships between these domains. It is suggested that the industry-level challenges and characteristics affect the firms’ capabilities to profit from their innovations, by influencing firms’ complementary assets and possibilities to capture the value of the innovation opportunities found in the market. This has an impact on the internationalisation endeavours of the firms, because as it has been suggested earlier, innovation and internationalisation correlate with each other. In addition, it is proposed that the challenges related to profiting from innovation contribute to the relationship between industry-level characteristics and internationalisation, and possibly even strengthen the industry-level challenges’ impact on internationalisation. In the following discussion these aspects will be reviewed in separate paragraphs. First, the earlier presented industry-level challenges’ impact on internationalisation in the context of fashion industry will be discussed on a more general level. Then, it is argued in which ways the industry-level challenges could affect the fashion firms’ abilities to profit from innovation. After that, views on
innovation’s impact on internationalisation in the fashion industry, and vice versa, are presented. Finally it is argued how the challenges related to profiting from innovation escalate the internationalisation challenges caused by fashion industry’s features and challenges.

Figure 1. Theoretical framework.

6.1 Industry-level challenges’ impact on internationalisation

As discussed earlier, the Finnish fashion industry is a challenging platform for firms wanting to internationalise successfully due to several reasons. Finland is a difficult home market for firms of almost any industry, but it is especially tough on representatives of small industries such as fashion and design. The volumes are small and the market is dominated by big international chains, which makes the competition international already in the local market. The retail structure is changing.
and as big department stores, hypermarkets, international brands, and e-commerce are constantly growing their market shares, small independent shops are forced to close down. The offering of distribution channels is thus narrowing down which makes it more difficult for Finnish fashion firms to get their products to the reach of potential customers. In addition to this, the Finnish fashion market is rather conventional and consumers are not eager to adapt new trends. This is a challenge to innovative designers. Thus it is argued that Finland is a challenging domestic market for Finnish fashion firms as it is difficult to generate profits and capital needed for international growth.

The current institutional setup of Finnish fashion industry does not provide internationalising firms with the best possible support. The industry is fragmented into actors of several sizes and there is no clusterization in Finland, which could enable fashion firms to benefit from certain cluster-related externalities. In addition, there are several parties in the field but the structure is unclear and there is no umbrella organization. Without proper, coherent representatives promoting and lobbying the industry is very difficult, which weakens the industry’s image as a credible field of business. This could be reducing possible investors’ interest in the field, and thus decreasing the amount of funding coming in. The fashion education in Finland does not provide designers with adequate business skills either, which can create significant challenges to run a firm even in the domestic market. Another distinctive feature of fashion industry is the inadequate IPR legislation. Possible copying of products and brands is an everyday phenomenon in many foreign markets, of which China is the prime example (K&L Gates, 2013). Fashion firm’s brand and products can be copied and sold in a certain market before the firm has even entered it, and getting the rights back to the firm can be a very arduous and expensive process. This can create obstacles to the internationalisation process.

There are product-related industry-level challenges as well, such as continuous change which is imbedded in the fashion industry’s nature. The fashion cycle is fast which shortens the product life cycle. In order to stay in the competition firms are forced to bring new products and collections to the market several times a year. This is a very resource-demanding task especially for the small firms, and could complicate the internationalisation endeavours. In addition to fast fashion cycle, the
product itself could be an obstacle for internationalisation as well. In Finland the fashion education often emphasises unique, deviant product design, which can happen on the expense of wearability and thus commerciality. The aspect of adaptation has to be taken into consideration as well, as design perceptions and tastes vary between markets. At the same time, the fashion scene is very international, and with the help of the Internet fashion styles and trends spread around the globe to various markets. In order to succeed in the international markets Finnish fashion firms need to keep up with global consumer trends and strive to create products that combine uniqueness with international appeal.

Networks are crucial for Finnish fashion firms’ survival, both in the domestic and international markets. Running a fashion firm includes many activities which all cannot be done by the entrepreneur his- or herself. In order to run business efficiently a fashion entrepreneur should outsource operations other than the core capabilities. Finding suitable partners is important, and it can be done via networks. Foreign networks can provide firms with valuable contacts in terms of e.g. buyers and agents who can have a big impact on firms’ internationalisation. By tapping into foreign partners’ knowledge firms can overcome the liability of foreignness when going into new markets. However, Finnish fashion firms do not have adequate foreign networks to benefit from, and this is a significant challenge in terms of internationalisation.

One of the major challenges Finnish fashion industry has is its weak brand. Consumers in international markets are not familiar with Finnish fashion’s concept – if there is any. In comparison, the concept of Swedish fashion, or the “Swedish Fashion Wonder” is known world-wide thanks to careful and systematic brand building. The brand of Finnish fashion has not been systematically built on national level which has a negative effect on the internationalisation of Finnish fashion.

Closely connected to the issue of Finnish fashion’s inadequate branding is the issue of appreciation towards the industry. The industry has not been generally appreciated or seen as a serious field of business which has held back potential investors. The situation has however improved during the past few years but there still is work to be done. Similarly the government support for Finnish fashion industry has improved in recent years as well, but there still remains room for development. The support
offered does not seem to be versatile enough, considering the fragmentation of the industry into several kinds of actors. As there are firms of different sizes that are at different phases of internationalisation, the governmental support should have more variety as well. By developing more versatile programs and support functions on the national level the internationalisation of Finnish fashion firms could be improved.

6.2 Industry-level challenges’ impact on firms’ abilities to profit from innovation

The industry-level challenges discussed in this study affect the Finnish fashion firms in many ways, including their ability to profit from their innovation opportunities found in the market. It is argued that there are many innovative fashion designers and firms in the industry that, however, cannot seem to gain profits from their innovation. Thus, it seems that creating innovative products with commercial potential is not the problem, but rather capturing the value from them. In order to capture the value, i.e. profit from the innovation a fashion firm needs a variety of assets and capabilities.

6.2.1 Complementary assets

As Teece (2006; 1986) suggests, in order to capture the value of the innovation a firm needs to possess certain complementary assets. These assets include generic assets, specialized assets, and co-specialized assets. In the fashion industry crucial generic assets would be sufficient financing, efficient production, supply chain and distribution channels, industry networks, and marketing and branding capabilities to promote the firm. Branding and marketing can be seen also as specialized assets as they can be tightly related to a certain innovation, e.g. a product or a collection. Co-specialized assets, which are bilaterally dependent with the innovation are more rare in the fashion industry, but not non-existent. Some fashion firms provide their customers with care services for their products, which can be seen as a co-specialized asset.

All these above mentioned assets are of high importance in terms of profiting from innovation. However, the challenges and features of Finnish fashion industry have an impact on these complementary assets which weakens the firms’ chances of profiting
from their innovation. The complementary assets and the industry-level challenges’ impact on them will be discussed more in detail later in this chapter.

6.2.2 Firm’s capabilities

Capabilities, which consist of skills and accumulated knowledge, enable firms to utilize their assets (Su et al, 2012), and they can also act as complementary assets (Pisano, 2006). They are thus crucial in terms of profiting from innovation. In a fashion firm these capabilities can include e.g. the entrepreneur’s know-how and experience, unique design vision and skills, expertise provided by educational or professional background, or other knowledge within the company.

These capabilities are influenced by the challenges related to Finnish fashion industry as well. For example, there are only very few big Finnish fashion firms that can offer internships and jobs for young designers to gain experience from (Lille, 2010). This kind of lack of sources for experience and expertise can have a significant effect on the business skills of Finnish designers, which in turn influence the firm’s chances for profiting from innovation.

6.3 The bilateral relationship between innovation and internationalisation

The fashion industry is a very global field of business. Large fast fashion chains such as Zara and H&M have spread across the globe and the most prestigious fashion houses including Chanel and Prada are known, and copied, in every part of the world as well. With the help of the internet a style trend of a small group in one corner of the world can become an international fashion craze in a matter of months or even weeks, and consumers can go to global web stores to shop for brands that are not otherwise available in their home countries. Global fashion trends influence more or less every civilized country in the world, and Finland is no exception. It is thus highly important for Finnish fashion firms to keep up with what is happening in the international markets to be able to create products appealing to consumers both in and outside Finland.
As argued earlier, internationalisation and innovation have a bilateral relationship in which one has an effect on the other. Internationalisation can stimulate innovation, and vice versa. Internationalisation can have a drastic impact on the innovation abilities of a fashion firm: it can act as a source inspiration for the designer, or bring other resources to the reach of the firm, such as financing. This is significant especially in the case of Finnish fashion firms which operate from a SMOPEC home market, as argued earlier. The volumes in Finnish fashion market are low, and in order to gain funds for developing innovation going abroad could be crucial.

Innovation can also help a fashion firm to internationalise. A firm can stimulate interest amongst the international fashion professionals by bringing a new and innovative product to the market. Innovative fashion concepts such as #INLAND showroom, the purpose of which is to promote Finnish fashion internationally (#INLAND web page, retrieved 22.8.2015), can have a significant role in the internationalisation of Finnish fashion brands. The innovative design by several Finnish fashion students has gained a significant amount of international attention in the Hyères Fashion Festival, which in turn has generated new opportunities in the business for the designers.

Fashion is a creative industry, and thus innovative in itself. It also is, as argued above, a highly international industry. In fashion innovation and internationalisation are closely connected, and can have a significantly positive effect on each other. Both should thus be promoted in order to develop the Finnish fashion industry.

6.4 Challenges related to profiting from innovation and their impact on industry-level challenges’ influence on internationalisation

In this theoretical framework the industry-level challenges of Finnish fashion and their impact on internationalisation have been discussed. Some viewpoints concerning their influence on firms’ abilities on profiting from innovation have been presented as well. This section will bring those two perspectives together and discuss how the challenges related to profiting from innovation can escalate the influence the industry-level challenges have on the internationalisation of Finnish fashion firms.
As discussed earlier, the industry-level challenges of Finnish fashion have an impact on the fashion firms’ abilities to capture the value of their innovations. In order to be able to profit from an innovation a fashion firm needs to possess and utilize certain complementary assets and capabilities, which will be discussed below. The industry-level challenges’ impact on them will be described as well.

6.4.1 Complementary assets

*Financing*

One of the most important assets for a firm is financing. A firm can have a great idea or an innovation for a product, but if it does not have sufficient financial funds to commercialize it, it may not be able to develop it, not to mention capturing the value from it either. Many of the industry-level challenges have an effect on this complementary asset, such as the earlier mentioned small home market. Finnish consumers are not usually eager to adopt new trends and invest in clothing, either. The financial support offered by the government may not be sufficient. The lack of foreign networks reduces the chances of finding investors outside Finland, while the potential domestic investors can be hesitant to invest in the industry because of its low appreciation. Finnish fashion is also in a need of coherent lobbying which would make the industry better-known amongst the investors. All of these aspects diminish fashion firms’ chances to profit from their innovations, which in turn complicates their internationalisation endeavours.

*Supply chain*

In order to be able to capture the value of an innovation, a fashion firm needs to have suitable supply chain partners from the production to distribution channels. Similarly to financing discussed above, the supply chain is influenced by many industry-level challenges as well. As majority of Finnish fashion firms produce their garments outside Finland, international networks are of great importance as they could offer a connection with a suitable production partner. Foreign connections could also result in finding distribution channels in international markets. In addition, the retail structure in Finland has changed drastically, and is still changing. As the fashion
retail is increasingly centred to large chains, department stores, and hypermarkets, the loss of volumes forces many small and independent shops to close down. This narrows down the distribution channel options for Finnish fashion brands which traditionally have been dependent on those kinds of retailers. Without proper volumes in the home market internationalisation can prove to be a very difficult task for many small fashion brands in Finland. However, this challenge could be overcome by reaching towards the international markets immediately from the inception of the brand.

**Foreign networks**

As described above, an industry network is of great significance for a fashion firm. By having an extensive network, a fashion firm can overcome the liability of foreignness or outsidership in a certain market by utilizing external knowledge sources, too, as it has the possibility to tap into a foreign partner’s knowledge and receive information from there. However, the lack of international networks is a challenge that hampers the internationalisation possibilities of Finnish fashion brands. Since the fashion industry in Finland is rather small, the domestic network connects the majority of Finnish brands. Even small development of some of the firms’ foreign networks could offer benefits for many of the Finnish fashion brands through the domestic network.

**Branding**

In order to increase its conspicuousness a Finnish fashion firm needs to carefully build its brand. A well-built brand adds value to the firm and its products (Jones & Bonevac, 2013). A strong brand is crucial in order to make the firm and its products known amongst the potential customers and investors, for example. A deliberately built brand increases the credibility of the brand, and it can create a competitive advantage over the competitors. The brand of a fashion firm has a significant impact on consumers: when buying luxury fashion goods, consumers do not merely buy the product itself but also the individual and social values, and perceptions the brand conveys (Ahmad et al, 2014). Brand management is highly important on the national level, as well. Unfortunately the brand of Finnish fashion is not strong (Lille, 2010).
If compared to Sweden, where the fashion industry has been carefully branded and Swedish fashion is now recognizable to consumers worldwide, there is no such equivalent concept of Finnish fashion (Lille, 2010). This has a major impact on the internationalisation of Finnish fashion firms.

**IPR management**

Intellectual property rights management can be regarded as a complementary asset as well. As discussed earlier in this study, the IPR legislation in the fashion industry is inadequate and copying is common. Asian market and China especially are known for high levels of copyright infringements. When entering these kinds of new markets fashion firms should carefully plan their IPR protection. Fashion firms can take actions to shield themselves from copying by registering their trademarks and logos for example in the EU area or in certain countries.

6.4.2 Capabilities

As mentioned earlier in this study, capabilities can act as complementary assets (Pisano, 2006), and there is no clear distinction between them. However, this study regards certain factors rather as personal or firm-level capabilities. Experience and education, and product design skills thus are considered as capabilities and separated from the complementary assets in this study.

**Experience and education**

One of the capabilities that influence fashion firm’s chances of profiting from innovation is the relevant experience gained by the people in the company. Crucial know-how and skills can be attained through work experience and education. As discussed in this study, there are several institutions in Finland that offer high quality education in design and fashion. However, these fashion schools often do not prepare the students with the business skills needed in the industry, which may cause many fashion entrepreneurs to go out of business very early on. Fashion professionals can build up their experience in the industry by working for other brands, for example. This kind of experience can offer them crucial knowledge and skills concerning
entrepreneurship and capturing value from their innovations. However, as already mentioned, there are only very few opportunities on offer in Finland for young designers to gain experience via work and internships. Many designers then found their own firms without sufficient know-how and experience of the fashion industry. This makes successful entrepreneurship difficult already in the domestic market, not to mention the international one.

Product design skills

As mentioned above, the fashion education in Finland tends to emphasize the artistic side of design. This artistic perspective is often highlighted in the fashion education to the point that the uniqueness of design overtakes the wearability, and thus commerciality of the product. Clothes are utility articles and if they are to be sold to consumers, they have to be wearable. The value of a fashion innovation cannot be captured if the product is unusable. In addition to commerciality, the product has to be designed with the foreign consumer and international trends in mind if it is to be taken to international markets. There thus are challenges related to product design of Finnish fashion that can hamper the internationalisation.

There indeed is a complicated relationship between the challenges related to the abilities of Finnish fashion firms to profit from their innovations, and their impact on the industry-level challenges’ influence on the internationalisation of the firms. The industry-level challenges influence firms’ abilities on profiting from their innovations in many ways. The challenges related to profiting from innovation then contribute to the impact the industry-level features and characteristics have on the internationalisation of fashion firms. It is thus argued that instead of a mere unilateral relationship, the phenomenon rather resembles a circle.
7 METHODOLOGY

This part of the study discusses the methodology used to examine the phenomenon of Finnish fashion firms’ internationalisation through the theoretical framework presented in the previous chapter.

7.1 Research strategy and methodology

This thesis is a qualitative study, and qualitative methods are used to collect the empirical data. The focus of this study is on examining the impact of industry characteristics and challenges related to profiting from innovation on the internationalisation of Finnish fashion firms. The aim is to form an understanding of the current state of internationalisation of Finnish fashion firms. There is no wide previous academic research on the phenomenon from this perspective.

As the aim of this thesis is to examine and form an understanding of the phenomenon of internationalisation of Finnish fashion firms, the choice of qualitative research is justified. Unlike quantitative research in which findings are processed with statistical or other quantitative means, qualitative research is more interpretative in nature and aims at finding concepts and relationships within raw data (Strauss & Corbin, 1990). Qualitative research is explorative and thus suitable for describing and forming a deeper understanding of phenomenon in question. This research is a case study, “which focuses on understanding the dynamics within single settings” (Eisenhardt, 1989, p.534). The aim of this research method is to create a profound understanding of one or more cases (Yin, 2011), in this study Finnish fashion firms. By studying the cases in their contexts a holistic view and understanding of a certain phenomenon can be reached (Yin, 2011).

Case studies often comprise of data collected from various sources (Yin, 2011; Eisenhardt, 1989). For this research previous academic literature as well as more topical information have been widely studied to form an understanding of the phenomenon. The empirical data used in this study was collected from multiple sources. Primary data was collected through interviews with selected companies, and
secondary data regarding the case companies was collected from sources such as media articles and company web sites. Previous interviews of representatives of the industry and firms have been used as well. The aim of the empirical data collection is to create a deeper understanding of the phenomenon, to collect current data regarding it, and to receive results that can be examined from the perspective of the formed theoretical framework.

7.2 Empirical data collection

In order to create a comprehensive view and deeper understanding of the phenomenon primary data was collected from three carefully chosen firms active in the Finnish fashion industry: Makia Clothing, Arela and Mirkka Metsola. To be able to study the phenomenon of internationalisation challenges it was important to collect information based on concrete experience rather than conceptions, and thus only firms with some kind of experience of internationalisation endeavours were chosen for this research. The studied firms are in different phases of internationalisation.

Makia Clothing is a streetwear brand founded in 2001. Currently the brand has retailers in more than 25 countries and sells their products through their web shop worldwide. The company representative interviewed was Makia’s Chief Operations Officer Mika Martikainen.

Arela is a family business focusing on cashmere knits. The firm’s first shop was established in 2010 in Tampere. Now Arela has two shops in Finland, two foreign retailers and a global web shop. Viivi Arela, the company’s Communications Director was interviewed for this thesis.

Designer Mirkka Metsola, who was interviewed for this study, established her brand in 2009. In addition to worldwide web shop, the brand’s products are sold by selected retailers in Finland. At the moment Metsola lives in Germany which is the next target market for the brand.
For a comparison a successfully internationalised Swedish company was interviewed as well. Whyred was founded in 1999 and it has several shops in Sweden as well as retailers worldwide. As of 2012 Whyred AB has operated as a subsidiary of Brandsmart of Sweden AB. Company’s Chief Executive Officer Claes Ströby was interviewed for this study.

The method used was semi-structured interview: the phenomenon was presented and the themes were given to the interviewees prior the interview, but the body of it remained flexible. This way the interviewees are able to discuss the phenomenon and their experiences regarding it in an informal manner. This kind of method also provides the interviewer with the type of information that could not be anticipated, which makes the research more multifaceted. The interviews enabled the author to collect primary data concerning the case firms and the phenomenon as the firm representatives discussed the current situations of the firms as well as their reflections and experiences on the phenomenon. The themes discussed in the interviews were based on the theoretical study and framework formed by the author. The interviews took place in July and August 2015 and they were conducted both in Finnish and English, depending on the native language of the interviewee. The interviews took approximately 40-50 minutes each.

The interviews were conducted over the telephone, recorded, and carefully transcribed. The data collected was analysed by the author and divided into themes based on the theoretical framework. The interviews are translated from Finnish to English. This, however, does not diminish the reliability of the study as instead of linguistic aspects the focus of the research is on the contents of the interviews. In order to form a comprehensive view on the firms and their internationalisation endeavours secondary data, such as company web sites, were used in the study.
8 EMPIRICAL EXAMINATION

In this part of the study introductions of the Finnish case companies will be presented and their interviews will be discussed. A successful Swedish fashion firm has been interviewed as well for comparative purposes, and its introduction and interview will be presented, too. The empirical data discusses the elements of the theoretical framework which was formed in the previous parts of the study. In the final chapter of the study conclusions will be drawn based on the empirical findings presented in this part.

8.1 Introduction of the case companies

8.1.1 Makia Clothing

Makia represents the small number of Finnish fashion brands that have managed to gain some foothold outside Finland. The brand was established in 2001, and the first collection came out a few years later. Makia was founded by Joni Malmi, Jussi Oksanen and Ivar Fougstedt as they felt that the supply in the streetwear market was dissatisfactory. They began designing clothing that reflected better their own preferences: high quality, and simple, wearable Scandinavian design for men of all ages and sizes form the heart of Makia concept. The professional snowboarding background is reflected in the work of brand’s main designers, Joni Malmi and Jesse Hyväri. Along with good, distinctive design Makia’s international success has been built on competence within the firm: prior establishing Makia, brand’s team members had gained experience from working in the clothing industry, and the team was reinforced by professionals, Mika Martikainen and Totti Nyberg, to handle e.g. sales and logistics. In addition, one of the key success factors has been the international networks that Hyväri and Malmi had built during their snowboarding careers. The brand produces clothing mainly for men, but has launched a collection for women, too.

In year 2011 Makia was awarded for its innovative work in fashion the Finnish Fashion Act award by Finatex, i.e. The Federation of Finnish Textiles and Clothing
Industries – now Finnish Textile and Fashion (Transworld Business, 2011). Makia was praised for taking a new, innovative approach to fashion and fashion business, and for its potential for an international success story (Transworld Business, 2011). Makia is nowadays sold in more than 25 countries worldwide, and in year 2014 products were shipped from their web shop to 40 countries (IL, 2014).

8.1.2 Arela

Arela is a family business run by CEO Maija Arela and her daughters, Head Designer Anni Arela, and Head of Communications Viivi Arela. The brand was first established in 2006 under the name of Arelalizza, but as the Arela family became the owners of the entire firm in 2013, also the name was changed to Arela (Shingler, 2013). Brand’s first shop in Tampere opened 2010 and another one in Helsinki in 2011.

Arela is known for its high quality cashmere knits and cotton jersey garments and accessories. Contemporary, yet timeless design, functionality, and high quality natural materials are the elements that define Arela’s concept. Arela designs for both women and men. (Arela web page, retrieved 1.8.2015)

In addition to Arela’s two own shops, the brand is sold by selected retailers in Finland. Brand also has a global web shop and two retailers in Europe but otherwise Arela’s internationalisation is in a very early phase.

8.1.3 Mirkka Metsola

Mirkka Metsola is a Finnish fashion designer who established her own brand in 2009. She has a versatile educational background, combining business oriented fashion design, tailoring as well as textile and surface design. Before launching her own brand Metsola has worked for other Finnish fashion designers. The defining elements of the brand are bright, distinctive patterns, edginess, and playfulness. Over the years the brand has brought out 14 ready-to-wear collections, in addition to which Metsola has collaborated with consumer product brands and hotels as well designed outfits for celebrities (Mirkka Metsola webpage, retrieved 1.8.2015).
Initially Metsola has designed only for women, but is launching her first collection for men.

Currently Metsola has a shop in Helsinki, and the brand is represented by several Finnish retailers. Metsola is now based in Berlin, Germany which she names as the next main target market for the brand. Metsola is also one of the founders of #INLAND showroom and pop-up store, the goal of which is to promote Finnish fashion export and the conspicuousness of Finnish design amongst international buyers and consumers. #INLAND has already toured in Berlin, Hong Kong and Saint Petersburg (#INLAND webpage, retrieved 1.8.2015).

8.1.4 Whyred

Whyred is one of the many Swedish fashion brands that have succeeded in the international markets. Whyred was established in 1998 by Lena Patriksson, Jonas Claesson, and Roland Hjort (Gundtoft, 2013). Hjort, who has formerly worked for H&M, is currently the main designers of the label (Swedish Institute, retrieved 2.8.2015). Whyred brought out its first men’s collection in 1999, and the first women’s collection followed the next year. The brand is a prime example of Scandinavian design aesthetics: it combines wearability with simplistic and modern lines. Whyred has also collaborated with several artists, provides music services, and pursues to combine arts, music and tailoring in new, innovative ways (Whyred webpage, retrieved 1.8.2015).

Since 2012 Whyred AB has been subsidiary of Brandsmart of Sweden AB (Bloomberg Business, retrieved 1.8.2015). The brand has its own shops in Sweden, a global web shop as well as several international retailers.

8.2 Industry-level challenges’ impact on profiting from innovation

Several issues concerning Finnish fashion industry’s challenges and features and their impact on individual firms were raised in the interviews.
8.2.1 Complementary assets

The interviewed representatives of the case companies brought up many industry-wide challenges that have an effect on the firms’ complementary assets, which are crucial in terms of profiting from innovation. The issues highlighted in the interviews included the challenges related to the supply chain, financing, industry networks, marketing and branding, and IPR management.

Supply chain

The retail structure in Finland is constantly changing which poses challenges to Finnish fashion firms. All interviewees agreed that Finnish fashion market has become very centred as retail chains such as S-ryhmä and large international brands are taking a lion’s share of the volumes in the clothing sector. In addition to this, the e-commerce sector is growing continuously. This kind of development in the market combined with current economic downturn has forced many small, independent shops to close down as they often lack the capital and other assets to stay in the competition against big retailers. This leaves many Finnish fashion firms with a more narrow distribution platform and as Arella’s Communications Director Viivi Arella mentions, it also narrows down the offering for the consumer. Mika Martikainen, the COO of Makia states that the competition is international already in the home market: Finnish market has been overtaken by large Scandinavian brands such as H&M for which there is no domestic equivalent. He aptly puts it:

“Finns have let the time pass us by while the Swedish, Danish and Norwegians have taken over the situation, so to speak”.

Finnish fashion market thus is a challenging platform for small domestic firms as it is dominated by large operators with high volumes and low cost production. The best chance to do good business in Finland is to get the brand into the range of big chains and department stores, like Mr. Martikainen states, but this is a very demanding task for a small firm. The lack of efficient retail network in the home market has a great impact on Finnish fashion firms’ opportunities on profiting from their innovations and internationalising: without efficient distribution channels generating profits is
nearly impossible. The lack of capital is forcing many fashion firms to go out of business before they even have had a chance to start their internationalisation, as Mirkka Metsola states.

According to Claes Ströby, the CEO of Whyred, the similar change is imminent in Sweden as well as big chains dominate the market and independent retailers are closing down. It also has an effect on the financing of fashion firms: as retail is constantly losing in terms of volume to e-commerce, financial institutions are more hesitant to invest in retail. However, the retail in Sweden has done the changes that the retail in Finland has not:

“You come 5-10 years behind. You have not done the [necessary] changes in the retail structure. I went to Helsinki last year, and what I’ve seen in Stockmann, and what I’ve seen in Sokos, is 15 years behind NK in how you present the products and what you give to the customer”. (Claes Ströby, CEO of Whyred)

However, the boom of e-commerce offers opportunities for small fashion firms as well. All case companies have their own global web shop which is regarded as a good sales channel by all of the interviewees. In addition, excluding Makia which had a temporary concept store in Helsinki summer 2015, all case companies also have their own brick-and-mortar shops, and according to Ms. Metsola it is the best channel to reach potential customers.

In addition to distribution channels, there are challenges related to the other end of the supply chain, i.e. the production. Each of the case companies has outsourced all or majority of their production to other countries which is somewhat an industry standard nowadays: there are only a few production providers in Finland and the costs are high. Also, there might not be production providers with expertise needed to produce certain products, as Arela has noticed when searching for production sites for their cashmere products. Finding suitable production sites is named as a challenge also by other Finnish case company representatives as well as by Mr. Ströby.
Financing

Financing, one of the most important complementary assets to a firm, was agreed by all case companies to be a challenging hurdle to overcome. Even though the situation has got better in recent years, there still is a need for versatility in terms of financing instruments offered for Finnish fashion firms. As stated by Ms. Arela, the growing appreciation of the industry has also increased its appeal in the eyes of big financial investors and the government, which has brought many new financing instruments to the availability of fashion professionals. However, as she mentions, getting financial support from the government for a commercial product is much more difficult than for e.g. some artistic projects without commercial interests.

The Centres for Economic Development, Transport and the Environment, i.e. the ELY Centres have traditionally offered Finnish fashion firms financial support for exporting. However, as Ms. Metsola says, due to current economic situation these grants have been cut down as well, both in terms of money and target markets:

“Apparently they are now giving financial grants for exporting to Asia but not to Europe. It seems rather peculiar. It seems like they are not quite on the map concerning where the potential markets are.”

In addition, to receive financial support for exporting from the ELY Centre, the entrepreneur needs to be in a project of four firms who apply for the grant together. This can be challenging, Ms. Metsola mentions, as well as the fact that it is necessary for the firm to have the capital needed for the project, e.g. a trip to an international fashion fair upfront as ELY Centre only gives a grant for a part of the expenses afterwards. Finpro and the Finnish Funding Agency for Innovation, i.e. Tekes give financial support for exporting as well, and their offerings have gotten better lately, says Mr. Martikainen. However, the variety of support offered by them could be wider. For example, Mr. Martikainen has come across with the fact that Makia, which has been in the business for almost a decade already, cannot benefit from the programs offered by Tekes and Finpro as they often are directed to small and young start-up companies. He, however, points out that especially in current economic state, the support offered by the government and public organizations would not
necessarily have to be financial, but it could be offered in a form of expertise, as well.

There indeed are room and a real need for more financing instruments provided by the private sector. As Mr. Martikainen points out, the responsibility of organizing financing for the commercial fashion sector should not necessarily even be in the hands of the government but rather the private investors should be activated. In recent years Finnish Textile & Fashion, former Federation of Finnish Textile and Clothing Industries, has organized some pitching events in order to bring business angels and potential Finnish fashion firms together. This kind of activity should definitely be continued, Mr. Martikainen states.

As mentioned earlier, all case companies found production to be one of most challenging operations to organize, also in financial sense. The development phase of a collection ties large quantities of investments, after which begin the pre-sales to distributors. Payments do not come into the firm until several months after the pre-sale phase when the deliveries are done. Firms need to have a substantial amount of capital upfront, which Mr. Martikainen describes as the basic problematic of the fashion industry. Mr. Ströby from Whyred presents similar notions too, and sees getting financial support as one of greatest obstacles for Swedish fashion firms as well.

*Industry networks*

All case company representatives emphasized the importance of networks. Ms. Metsola describes having networks as

“A must. Network is the most important thing you have after the product, in order to be able to brand [your product] and to find the suitable providers for you. You need them as you cannot do an awful lot by yourself.”

Networks, both on the industry as well as personal level have been highly important to Makia’s internationalisation, too. The company founders’ former snowboarding careers had provided them with professional connections to the fashion industry through their clothing sponsorships. The celebrities used in Makia’s marketing such
as Formula 1 driver Kimi Räikkönen have been found through personal networks as well, Mr. Martikainen states, and adds that in addition to these personal networks a great deal of connections have been found from industry fairs. Other interviewees mention fairs as an important platform for making connections and building networks, too.

In the interviews, the tight domestic network is highlighted as one of the strong points of Finnish fashion industry. As the Finnish fashion scene is so small, more or less everyone active in the industry is part of the network and knows each other, Ms. Arela says. According to Ms. Metsola designers in Finland have “a tight synergy”, and everyone is willing to offer help to others in their own line of expertise, should it be styling, booking models for a runway show, or pricing, for example. Mr. Martikainen stresses the importance of connections to buyers to get into the department stores and other large chains, as

“… It is the people who do business with people. It is not the central companies that buy the brands but the people.”

In addition to domestic networks, however, foreign networks are crucial for a Finnish fashion firm’s internationalisation, as all case companies agree. As Ms. Arela states, foreign networks are highly valuable possessions as, similarly to Finland, new brands are introduced to buyers of international chains and other fashion professionals through their networks.

Finding an agent in the target market is one of the issues raised in the interviews, which possibly could be solved by having foreign networks. This is described as a very challenging task. Ms. Metsola is in the search for an agent in the firm’s next target market, Germany, because

“…you must have an agent. They have all the contacts, and you get more credibility for having someone who represents your brand and speaks the local language, even though they [Germans] know English. It probably brings more credibility [and signals] that you really are here to stay and offering the product to the market, and it is not merely a test run.”
Mr. Martikainen emphasizes the significance of finding an agent who has the passion for and who believe in the brand to ensure the access to the desired distribution channels. This kind of agents have the right connections, know what kind of customer segments to pursue, and they are willing to prioritize the brand in terms of selling efforts, which is crucial, as Mr. Martikainen states. Foreign networks could also provide help in overcoming the earlier mentioned problem of finding suitable production companies outside Finland. Fashion firms can pursue to connect with agents and representatives of producers in international fairs but the public organizations, such as Finpro and Finnish Textile & Fashion could help as well by using their international networks of e.g. consultancies. However, as Mr. Martikainen points out, the industry in the international scale is so vast that is practically impossible for any organization to have extensive knowledge and connections to agents in foreign markets.

**Marketing and branding**

The significance of efficient marketing and branding was highlighted throughout the interviews. All case company representatives name brand building as an important activity to be kept close to the core of the firm. Branding is of great importance to make the firm memorable and recognizable, and can add to the competitive advantage of the firm more than developing a superior product.

“All those garments were invented and developed a long time ago, so it is the brand, the story and the overall feeling [that brings superiority] rather than inventing the t-shirt again.” (Mika Martikainen, COO of Makia)

Even though the fashion firms themselves are responsible for their branding, efficient brand building on the national level could help them as well in their endeavours related to profiting from innovation and to internationalisation. During the interview with Mr. Ströby, the CEO of Whyred, the issue of branding is brought up several times. He names branding as one of the key success factors for the Swedish fashion industry. In addition to the branding done on firm-level Swedish fashion’s brand has been developed on the national level as well which has even lead into the term “Swedish Fashion Wonder”. Through careful brand building Swedish fashion has found its own space in the international markets and is nowadays globally known in
the premium fashion segment, as Mr. Ströby puts it, for “good design at reasonable prices”. Efficient branding of Swedish premium fashion labels has even enabled them to outperform Danish brands in their local market which has been known for its variety of successful fashion brands in the same sector, says Mr. Ströby. Having a clear vision in terms of the company’s brand and in what is presented to the customer is of great importance.

“It is really, really important that we have confidence in ourselves, the confidence in our products, the confidence in what we are going to sell to the consumer. - It is easy to lose your identity in the brand; you must know exactly what you want to do.” (Claes Ströby, CEO of Whyred)

**IPR management**

All case companies regarded copying as a very unpleasant phenomenon which, however, is embedded in the nature of fashion industry and cannot always be fought against. As both Ms. Metsola and Ms. Arela state, when encountered with copying of your products, one should rather take it as a compliment and then move on. Unlike Makia, which has registered its trademark within EU and some other countries, Arela and Mirkka Metsola have not yet seen it as necessary. According to Ms. Arela the core of the firm lies in the branding and its image, which cannot be copied. She also mentions the personification to the family name as one of their brand’s strengths, which also protects from copying. Ms. Metsola has some personal experience, and a prime example about the phenomenon, as her web page domain was registered in Asia after attending a showroom event in Hong Kong. According to Ms. Metsola this is a common phenomenon in the Asian market, where trademarks of young, up-and-coming foreign fashion labels are registered and then offered to be sold to the label at a high price when the label aims to enter the market. Besides this case, none of the case companies has faced significant problems concerning copying of their products.

8.2.2 Capabilities

The topics, which here are seen as capabilities or as closely related to them, raised in the interviews were experience, education, innovativeness, and design skills and
Experience

Experience is not necessarily a capability in itself but can promote the development of other capabilities. Having relevant experience from the industry can provide the entrepreneur with other skills and confidence, and it enhances the chances of profiting from innovation. Ms. Arela’s mother Maija Arela who is the CEO of the brand, has been active in the Finnish fashion industry since 1970’s which has provided the firm with vast knowledge of the field and extensive networks, mentions Ms. Arela. Family background has provided Ms. Metsola with experience as well, as both of her parents were entrepreneurs. In addition, her mother was a fashion designer which has enabled Ms. Metsola to get acquainted with the fashion industry from early on. She feels that this has provided her with more experience relevant to fashion entrepreneurship than what her fashion studies have given her. Ms. Metsola also gained experience by doing internships for other designers before setting up her own brand, and strongly recommends this for other designers trying to get into the industry.

“If you are coming into the industry, you should do internships and go to other firms to see how they operate. You will learn to work in your own way, and find your own way of doing things.” (Mirkka Metsola, designer)

Mr. Ströby highly recommends building a versatile work experience, as well. According to him, the best Swedish fashion designers have worked for different international brands and done internships and exchange studies in foreign countries before becoming entrepreneurs.

“If you compare it with a salesman or a music band, you must do your miles on the road. - … it’s exactly the same for good designing, you must do your research in school, international or Swedish, so you really know what you want to do.” (Claes Ströby, CEO of Whyred)

One of the Swedish fashion’s success factors, and what sets it apart from Finnish fashion industry, is the versatile set-up of the industry. There are international
fashion giants such as H&M in the industry which provide young designers with great opportunities for getting experience. As Mr. Ströby states, in this matter large fashion brands can have a greater impact on the industry than the educational institutions or governmental actions. He encourages Finnish fashion designers and students to seek for sources of experience and know-how from international settings:

“You must go abroad, to Sweden, Denmark, do the know-how, do the craft, learn a lot and then come home and do the same thing in the home market.”

Education

As discussed above, interviewees regarded versatile work experience generally as more important than educational background. Ms. Metsola sees this to apply especially to entrepreneurial skills, which rather originate from the personality of a designer:

“In my opinion school does not prepare you for entrepreneurship in any way. ... you have to have a certain type of character to want to be an entrepreneur.”

She further emphasizes the entrepreneurship itself to teach the designer the relevant skills along the way, if the person has the right attitude and nature.

However, even though the Finnish fashion schools may not provide their students with sufficient entrepreneurial skills, they do offer versatile design education. As Ms. Metsola states, the current flagship of Finnish fashion education, the Aalto University is more focused on the artistic side of fashion, while the design education in universities of applied sciences such as Metropolia is more practical and business oriented. Ms. Metsola herself has studied tailoring and dressmaking in addition to her fashion design degree from Metropolia and surface design studies in London College of Fashion. As she mentions, the most beneficial way for a designer would be to combine both artistic and pragmatic studies. This would provide designers with relevant skills for profiting from their innovation, succeeding in the fashion business and help them to find their own vision.
Innovativeness

All case company representatives agreed innovativeness to be an important capability for a fashion firm, even though they did not necessarily regard themselves innovators as such. Ms. Arela sees fashion firms to be inevitably innovative since they have to bring out a new collection several times a year:

“We do not circulate the same prototypes but we have to invent a new world, a new collection and a new product to present. It is a kind of continual everyday innovation.”

Instead of in products, innovativeness is more shown in the concepts and actions, conclude all the interviewees. Arela has developed a care service concept for its cashmere products, which is a rarity in the fashion business. This kind of responsibility of products beyond purchase is gaining more importance nowadays and answers to a growing global trend, as Ms. Arela states. Arela wishes to develop this concept further in the future as there are only few services of this type available.

Mr. Martikainen describes innovativeness to show in the brand and marketing of Makia rather than in the products, and mentions the marketing campaign featuring Kimi Räikkönen as an example of this. As he states, when the goals are high but the resources are small, one has to be innovative with marketing. This can be argued to be the case for many small Finnish fashion firms.

Ms. Metsola sees her actions to convey more innovativeness than her products, as well. She and her colleague, a Finnish fashion designer Kaisa Riivari, founded #INLAND showroom and pop-up store, the purpose of which is to present Finnish fashion and designers to the international customers and fashion professionals. Since its inception in 2014 #INLAND has showcased collections of several Finnish fashion brands and organized pop-up stores in Hong Kong, Berlin and St. Petersburg. As Ms. Metsola mentions, this kind of activity has not been seen in the Finnish fashion industry before. This type of “thinking outside the box” can bring new opportunities to profit from innovation and internationalise to Finnish fashion firms, and should be promoted on the national level.
The innovativeness of Whyred has actualized through “Art, Music & Tailoring” - collaborations with artists and music professionals, such as Madonna and Oasis. According to Mr. Ströby this kind of innovativeness is in the company’s DNA and an important source of inspiration. However, he points out that this kind of activity has not been done until recent years. Before expanding the boundaries fashion firms should develop their business and stabilize their economic status. Innovativeness should not become a value in itself, but every fashion entrepreneur should keep the focus clear, as Mr. Ströby states:

“The most important thing for every fashion brand is to make money, and when you make money, then you can be freer to do this [innovation] development. But a lot of them [fashion brands] start at the wrong end of this problem.”

Design skills and vision

Design skills and vision can be seen to originate from designer’s creativity although, as mentioned earlier, they can be developed through experience as well. Ms. Metsola mentions fashion designing to be her calling, and a form of self-fulfilment. Also the design of Makia products originates from its founders’ personal vision and desires, states Mr. Martikainen. However, even though fashion designers often have a strong personal vision, it is important to develop the products further by listening to the customers and what they need, as both Ms. Arela and Ms. Metsola state. At the same time, designers should also keep up with the global trends and marry that into the product as well. As Ms. Arela mentions, while combining the needs of the customer and global trends in the product design, it is crucial to keep the personal design strong and visible, as well.

Adapting the products to the international markets is not seen as a challenge by the case companies although it does have an impact on the design and product offering. According to Ms. Metsola her first menswear collection launched in 2015 was developed the international and especially Asian customer in mind, which has had an effect on the design. In Makia’s products adaptation is shown primarily though the product offering, says Mr. Martikainen: in Makia’s currently biggest foreign markets Spain and Italy there is a need for more summer wear while warm coats are directed
to customers in the North. According to Ms. Arela the initial incentive for designing cashmere products was the need for warm clothing during Finnish winters but otherwise internationalisation has not had an effect on the actual product design.

8.2.3 Finnish society’s impact on the fashion industry

In addition to complementary assets and capabilities, several topics and phenomena concerning the Finnish society and its influence on fashion industry were discussed as well. The covered topics included the general attitudes towards Finnish fashion, the characteristics of Finnish consumers, and the support offered to the industry by the government. All these aspects can have an indirect impact on Finnish fashion firms’ chances on profiting from innovation.

General attitudes

All the case company representatives described the general attitude towards Finnish fashion to have improved which has had a positive effect on the appreciation of the industry as a field of business as well. According to Mr. Martikainen public organizations are starting to understand the industry better which has resulted in a wider range of support on offer. The government and large financial institutions now see the commercial potential of the industry in a new light, as Ms. Arela mentions but further continues to be slightly anxious to see what kind of an impact the new government and its policies have on the creative industries. Finnish fashion has gained more credibility, and it is slowly moving towards being regarded a serious line of business. This development has happened along the professionalization of the industry, says Ms. Arela. However, as Ms. Metsola states, the way fashion is often portrayed in the media diminishes its credibility.

“We have all these nice reality shows and other things that eat away the credibility [of fashion industry]. - Usually fashion is a light end story of the news broadcast even though it should be presented as a field of business like many others.” (Mirkka Metsola, designer)
The Finnish consumer

The professionalization of the industry has impacted the consumers’ attitude towards Finnish fashion as well, as Ms. Arela states. She sees that consumers’ opinion on Finnish fashion has improved as the products have gotten more internationally competitive, and now consumers are more proud of and willing to support Finnish brands.

“It seems like even 10 years ago Finnish consumers did not see buying domestic brands as interesting or cool. But now consumers’ attitude is different, and it surely goes hand in hand with the professionalization of this industry. The merchandise coming from here is internationally competitive, and it has a great impact on it.”

However, even though some improvement has happened, Finnish consumer is still challenging. Investing in clothing and style has not been traditionally regarded as important in the Finnish society and, as Ms. Arela puts it, “Finnish consumer is often horrified by the price”. This is a challenge for firms like the three case companies who all produce clothing of high quality, which shows in the costs. Foreign consumers do not concern Arela’s products as expensive like the Finnish consumers tend to do, says Ms. Arela. She however adds that Finnish consumers are loyal to brands with good quality products which leads to repeated purchases. Ms. Metsola has similar view and says that one can always find customers for good quality products. According to her it is better to keep the price as high as it needs to be to cover the costs and produce in smaller volumes than to compromise the quality.

A significant difference can be seen between Finnish and Swedish consumer, states Mr. Ströby. He describes Swedish consumers as more trendsetting than Finnish ones. A higher percentage of Swedish consumers are so called early adapters who are eager and interested to embrace new fashion and styles. This is one of the success factors for the Swedish fashion industry. According to Mr. Ströby, however, Finnish consumers are getting more and more adaptive and interested in fashion which would have a positive effect on the Finnish fashion industry as well. By purchasing more Finnish fashion consumers would create higher volumes for the local brands in the
home market, which would enable the brands to gain profits on their innovation also in the international markets.

**Government support**

Somewhat contrary to expectations, case company representatives had merely positive opinions on the government’s role and actions concerning Finnish fashion industry and entrepreneurship in general. As mentioned earlier, the offering of financing instruments has been extended while the general attitude towards fashion industry has improved as well. This kind of development can be seen as a sign of ameliorated government support as well, as all interviewees conclude. Mr. Martikainen mentions that there could be some room for improvement in terms of profits tax, but otherwise he sees government’s support for entrepreneurship as sufficient.

“I would not criticise the state so much as you can negotiate with them as well, and you can get help from them. They surely are trying to do the best they can at their own end. “(Mika Martikainen, COO of Makia)

Mr. Ströby does not regard government support a significant success factor of Swedish fashion. According to him the success of the industry has been built by the entrepreneurs themselves while the Swedish government has not participated until after the brands have prospered. Like mentioned earlier, instead of government support he emphasizes the significance of large international chains such as H&M in building the industry and “creating good entrepreneurs”. It is the industry itself that has created the success. As Mr. Ströby mentions, successful brands such as Acne “do a lot of good for the industry”, and they tend to create a pull effect that helps other brands to profit from their innovations, and internationalise as well.
9 CONCLUSIONS AND DISCUSSION

This thesis has presented a theoretical framework comprising of innovation and internationalisation studies, which has then been applied in the context of Finnish fashion industry. The aim of this chapter is to recapitulate the different parts of the thesis and present the findings. A conclusion will be drawn concerning the presented theory and empirical evidence. In addition, the results will be discussed and managerial implications reviewed. Finally, the validity and reliability, and the relevant subjects untouched in this study will be discussed and suggestions for further research will be given.

9.1 Key findings

The aim of this research was to form an understanding of the current state of the internationalisation of Finnish fashion firms, to identify and describe the challenges, and to find means to overcome them. To construct the theoretical framework three sub-questions were used, and thus the features and challenges of Finnish fashion industry and the challenges in profiting from innovation were discussed, and their influence on the internationalisation of Finnish fashion firms was reviewed. The topic was researched by conducting a literature review and empirical data collection. The main research question was:

What are the main industry-level challenges that influence the Finnish fashion firms’ chances to internationalise successfully?

The theoretical framework composed for this research (Fig.1.) proved to be accurate in the most parts. A revised version of the framework will be presented later in this chapter. Based on previous research and other perceptions concerning the phenomenon, it was suggested that the industry-level challenges of Finnish fashion have an impact on the internationalisation of Finnish fashion firms. This assumption was proven to be correct by the literature review and the empirical examination. Many of the presented industry-level challenges have been discussed in the previous research literature (e.g. Lille, 2010). However, this study has updated the previous
findings. For example, the appreciation of the industry has improved since Lille’s (2010) report, although there still remains room for improvement.

By applying Teece’s (2006; 1986) PFI model in combination with international entrepreneurship and other internationalisation theories, new perspectives were brought up concerning Finnish fashion industry, its challenges, and their impact on the internationalisation of Finnish fashion firms. It was proposed that the industry-level challenges influence Finnish fashion firms’ abilities to profit from their innovations, which in turn has an impact on their internationalisation opportunities.

In order to examine what kind of effects the industry-level challenges and features of Finnish fashion industry have on the firms’ internationalisation endeavours, three sub-questions were derived from the main research question. Next, they will be discussed.

\textit{Which specific industry features have an effect on firms’ internationalisation?}

As proposed by previous research literature (e.g. Lille, 2010), also this study confirmed that the industry-level challenges indeed have an impact on the internationalisation of Finnish fashion firms. Certain topics were raised in the case company interviews. One of the main challenges brought up was the changing retail structure in Finland: as the volumes are centring increasingly to large international chains, hypermarkets, and department stores, the range of distribution platforms for small fashion brands is getting narrower. The Finnish consumer base was considered challenging as well in terms of trend-adaptability and fashion expenditure. The home market of Finnish fashion brands is difficult to generate profits in and thus creates challenges for fashion firms’ internationalisation.

The lack of foreign networks was one of the most highlighted issues by the interviewees. In fashion industry the right connections can be crucial as they can e.g. provide the firm an access to certain distribution channels or connect it with suitable production partners. As mentioned earlier in this study, one of the distinctive features of fashion industry is the so-called taste elite, which has a significant control over the development of global trends and visibility of fashion brands (Falay et al, 2007).
Reaching this taste elite through networks can have a significant impact on the internationalisation of the firm. In addition, as pointed out in the interviews, fashion is a very “person-dependent” industry, in which individual actors in e.g. purchase teams of department stores have a big impact on which brands are represented in the stores. Having these connections in a network can be crucial for the development of distribution channels. As a large part of the business is conducted through relationships, the lack of networks is considered as a major challenge in the Finnish fashion industry.

The recognition of fashion as a credible field of business has an impact on the internationalisation of Finnish fashion firms, as well. Even though the appreciation of the industry has improved in recent years, as lined by all the interviewees, there still remains work to be done. More versatility in terms of support would be needed. Even though the case companies’ reflections on the governmental support were rather positive, they still wished for more versatility in the programs and financing instruments on offer. However, especially in current economic situation it is a difficult task to achieve. There is a need for financing from the private sector. Fashion industry has been rather unknown and thus not appealing to investors, due to lack of lobbying of Finnish fashion. The lack of conspicuousness and credibility of Finnish fashion can be also due to the weak branding of the industry. The brand of domestic fashion has not been systematically built in Finland like it has been in Sweden, for example. The concept of Finnish fashion is not known in foreign markets, if even in Finland. All these aspects contribute to Finnish fashion industry’s lack of recognition, and thus create obstacles for the internationalisation of Finnish fashion firms.

The product itself can create internationalisation challenges, as well. The product life cycle in fashion is short and firms have to bring out several new collections every year to stay competitive, which is very resource-demanding especially on the small firms. In addition, the product design in Finland often relies rather heavily on the uniqueness in design, which sometimes overpowers the wearability, and thus commerciality of the product. This is due the artistic emphasis of Finnish fashion and design schools. Bringing out an innovative but commercial collection several times a year is a challenging task, also in terms of internationalisation.
Which specific industry features have an effect on profiting from innovation?

Based on the research literature and the empirical evidence it is concluded that the industry-level challenges impact Finnish fashion firms’ abilities to profit from their innovations. In fact, the challenges in profiting from innovation seem to be directly related to the industry-level features and challenges of Finnish fashion. The industry-level challenges thus create an obstacle for firms to profit from their innovations (see Figure 2). Following Teece’s (2006; 1986) PFI model it is argued that to profit from an innovation a firm needs certain complementary assets and capabilities. The complementary assets of Finnish fashion firms are heavily impacted by the industry-level challenges and features, and basically it seems that the challenges in capturing the value originate from the industry-level challenges of Finnish fashion.

Figure 2. Revised theoretical framework.

Sufficient financing is one of the key complementary assets to a fashion firm. In order to develop and commercialize a product funds are needed. As discussed earlier,
the financial support offered by the government is not sufficient at the moment, and the industry lacks interest in the eyes of potential private investors. In addition, Finland is a challenging home market to generate profits in due to its small volumes, centred retail structure, and the consumer base which is eager to adapt new trends and invest in clothing.

The industry-level challenges have an impact on organizing the supply chain which is an important complementary asset for a fashion firm, too. The lack of foreign networks can create obstacles for effective supply chain management. Finding good production partners outside Finland is of high importance to Finnish fashion firms, and these connections are usually found through international networks. Without effective supply chain a Finnish fashion firm may face difficulties in terms of profiting from innovation.

As emphasized many times in this study, the lack of foreign networks is one of the most difficult challenges in the Finnish fashion industry. Networks are a critical complementary asset to a fashion firm, as well. All interviewees agreed that networks are one of, if not even the most important asset after the product. As lined by Mr. Martikainen from Makia, “it’s the people who buy the products, not the companies”, i.e. having the right connections is crucial for getting the product to the store shelves or on the pages of fashion magazines, for example. The industry-wide lack of foreign networks is hindering Finnish fashion firms from profiting from their innovations.

Brand is another important complementary asset of a firm, especially in the field of fashion where consumers often buy experiences and images conveyed by the brands instead of mere utility articles. As concluded earlier, the brand of Finnish fashion is weak, and this complicates the branding efforts of individual firms as well. A well branded concept of Finnish fashion would create a lifting effect to the whole industry and enhance the firms’ chances to profit from their innovations.

In addition to complementary assets certain capabilities are needed to profit from innovation, too. Relevant experience from working in the industry can provide the fashion entrepreneur important business skills. However, due to the set-up of Finnish
fashion industry, i.e. the very small number of big domestic fashion companies there is lack of internship and work opportunities for fashion designers and students. Many designers are thus practically forced to set up their own firms without relevant entrepreneurial skills if they are to stay employed in the fashion field. The fashion education in Finland in its current form does not provide students with these business skills, either. In addition, the Finnish fashion education is described as being too focused on the artistic side of fashion instead of commerciality. In order to create a successful fashion product its design needs to combine uniqueness with wearability, which often is forgotten in Finnish fashion. These aspects have a significant impact on the firms’ opportunities to profit from their innovations.

In addition to these industry-level features which have an impact on the firms’ abilities to profit from their innovation, one completely new aspect was raised in the interviews. None of the case company interviewees considered themselves as innovators which can be a significant obstacle to profiting from innovation. As fashion entrepreneurs do not perceive themselves as innovators or their products as innovations, they might not be able to recognize and seek for proper mechanisms to protect and capitalize them. If the entrepreneurs would see themselves as innovators, they could have better chances of identifying and developing correct complementary assets needed for capturing the value of their innovations. Even though this aspect is realized on the firm-level, it has a significant impact on the industry-level as well.

_How challenges in the industry and in profiting from innovation contribute to firms’ internationalisation?_

Based on the findings of this study it is concluded that the industry-level challenges together with the challenges related to profiting from innovation have a significant impact on the internationalisation of Finnish fashion firms. As argued above, the challenges the Finnish fashion firms have concerning their complementary assets originate from the industry-level features and challenges.

It is also argued in this thesis that innovation and internationalisation have a bilateral relationship in which one can stimulate the actualization of the other. Innovativeness and innovation capabilities are thus important for fashion firm’s internationalisation,
as they can help the firm to distinguish from the competitors, raise interest in potential foreign partners and thus build new networks. However, as argued in this study, mere innovativeness does not suffice but the firms needs to capture the value from their innovations to make profitable business in the international markets. In order to profit from the innovation a firm needs certain complementary assets and capabilities to be used in conjunction with the innovative product and the know-how imbedded in it (Teece, 2006; 1986). In this study the critical complementary assets and capabilities of Finnish fashion firms have been defined, including financing, supply chain, foreign networks, branding, experience and education, IPR management, and product design skills. Based on the research these assets are of the same areas that are lacking or problematic on the industry-level, as well. Thus it is argued that the industry-level features and challenges have a significant negative impact on the internationalisation of the Finnish fashion firms through their opportunities in profiting from innovation.

9.2 Practical implications

Solving the problems and enhancing Finnish fashion firms’ chances of internationalisation would require actions not only from the firms themselves but also from the public organizations, the government, and the private sector.

More extensive range of support options is needed by the government and public organizations. Organizing more financing is undoubtedly a challenging task, especially given the current economic situation both on the domestic and global scale. Thus it would be crucial for the organizations to lobby the fashion industry amongst the private sector, and pursue to bring potential fashion firms and private investors together. Fortunately this kind of actions have already been taken and pitching events have been organized. This type of activity should definitely be encouraged and continued.

In addition to financial support, Finnish fashion firms would benefit from programs offering expertise aid as well. For example, Finpro organizes growth programs directed especially to fashion and lifestyle brands, and this kind of support answers to a real need. However, the range of programs and support functions should be
widened to offer Finnish fashion firms at different stages of internationalisation and growth possibilities to benefit from expert help.

Resources should be directed towards building the brand of Finnish fashion more systematically. In addition to programs enhancing the internationalisation of Finnish fashion, its brand should be thought out carefully and then promoted in the international markets. A distinctive concept of Finnish fashion should be formed to make it more recognizable for international customers. A well-built brand on the industry-level would offer individual firms a good platform for their own brand building and internationalisation endeavours, like it has done for example in Sweden.

One of the most significant challenges to Finnish fashion firms is the lack of foreign networks, and actions should be taken on the industry-level to ease the situation. Organizations such as Finpro and Finnish Textile & Fashion should promote Finnish fashion firms’ international networking by, for example, organizing networking events and offering consultancy services for finding possible foreign partners.

Fashion is an innovative industry. This comes across not only through innovative design and products, but also in the form of innovative actions, as it was discovered in the case company interviews. The #INLAND showroom co-organized by Mirkka Metsola is a good example of business model innovation, which can be crucial for a firm to capture the value from its innovation (Euchner & Ganguly, 2014). Through this kind of activity fashion firms can find new, innovative ways to make profitable business as the fashion retail structure is changing and the traditional channels are eroding. Fashion firms also create service innovations, such as the cashmere care service by Arela. Actions should also be taken to inforce the fashion entrepreneurs’ perceptions concerning their own innovativeness, as this could help them to identify and develop the complementary assets needed for profiting from their innovations. However, even though there are already many ways the fashion industry is innovative in, the importance of innovation to internationalisation should still be emphasized. Innovation is important for finding new ways of generating growth as well, especially given the current global economy. However, innovativeness should not be sought for mere innovativeness’ sake: the primary aim for every fashion firm to make profitable business. Government has an important role in stimulating
innovation, and it should seek to promote finding new perspectives to innovation in the fashion industry, as well.

The role and the actions of the government are often heavily emphasized when looking at the internationalisation of Finnish fashion firms, and this thesis, at least to some extent, makes no exception to this. However, the seed for success is in the industry itself. As stated earlier in the study, there only is so much the government can do. Instead of focusing what has or has not been done on the state level, new perspectives should be looked for to find the success factors from the existing strong points in the industry.

9.3 Validity and reliability

A vast amount of references have been used in this study to provide a conclusive and accurate view on the topic. In addition to different fields of academic research, the references have been collected from newspapers and other topical publications as well, to ensure holistic and up-to-date discussion. At the final phase of the data analysis the interviewees were given the results for checking, and all case company representatives agreed with the findings. The participants were given the possibility to remain anonymous in the study, in order to avoid biasedness in the answers and to ensure the reliability of the study. However, they agreed that their names could be published, which allows others to verify the discussion and the findings as well. The form of the interviews was semi-structured which allows the interviews to be flexible and shaped by the interviewees’ own perceptions (Lewis-Beck et al, 2004). This kind of structure also allows the interviewees to freely and independently describe the phenomenon and their experiences as they perceived them. The process of data collection, as well as the conclusions’ connection to it is presented clearly in the study. To enhance the reliability citations and other extracts from the data are given.

9.4 Limitations and suggestions for future research

There are many limitations to this study which are acknowledged. As the study was conducted as a qualitative research, the findings are influenced by the researcher’s perspective on the relevance of different issues brought up in the data collection
phase. The study is a master’s thesis which affects the scale of the study and availability of resources. Despite the efforts the final number of case companies was rather limited, which has an effect on the validity of these findings. The findings of this research may not apply to other countries either, as the study has merely focused on the case of Finnish fashion industry and Finnish fashion firms, with a small side note concerning the Swedish fashion industry.

This study contributes to the research discussion by providing information on the internationalisation of Finnish fashion firms, and shows that the problems related to it are caused by the industry-level challenges’ impact on the firms’ abilities to profit from innovation. For more detailed and generalizable results a similar kind of research could be conducted with more primary empirical data. In order to find the root causes for this phenomenon research could be conducted concerning in what kinds of mechanisms the industry-level challenges influence the complementary assets and capabilities of Finnish fashion firms. A longitudinal study of a Finnish fashion firms during its internationalisation process could also provide the research discussion with important information. Interesting findings could also result from similar kinds of studies conducted in other countries. In addition, all the case companies interviewed for this study were ones that were on their internationalisation path and some had already succeeded in it at least to some extent. It could provide the research discussion with beneficial information concerning the phenomenon to study also firms which have failed in their internationalisation.

Fashion industry should be studied from the perspective of innovation research, as well. As demonstrated by the empirical findings, Finnish fashion entrepreneurs do not consider themselves as innovators or their products as innovations. It is not necessarily only the fashion entrepreneurs themselves who have this perspective: innovativeness has been a feature traditionally associated merely with e.g. technology industries. This has narrowed the scope of innovation studies as well as the range of research concerning fashion industry. In order to find new perspectives in innovation research field and to find new mechanisms for fashion firms to overcome their challenges, Finnish fashion industry should be examined from the viewpoint of innovation.
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